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Canada, Parliament, House of Commons
Standing Committee on Public Accounts

Minutes of proceedings and evidence
respecting the Bren machine gun and
other armament contracts 1939. 101-22

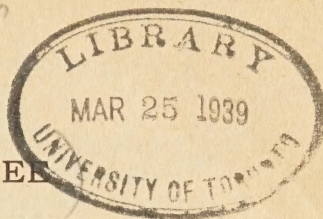


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SESSION 1939
HOUSE OF COMMONS

Government
Publications

7947



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN

AND OTHER ARMAMENT CONTRACTS

No. 1-20

THURSDAY, MARCH 9, 1939

FRIDAY, MARCH 17, 1939

TUESDAY, MARCH 21, 1939

WITNESSES:

Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue;

Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939



MEMBERS OF THE COMMITTEE

Mr. W. A. Fraser, *Chairman*,
and Messieurs

Ahearn,
Anderson,
Barry,
Beaubien,
Bercovitch,
Bertrand (*Laurier*),
Black (*Chateauguay-Huntingdon*),
Blanchette,
Bothwell,
Brooks,
Brown,
Douglas (*Weyburn*),
Dupuis,
Factor,
Ferland,
Fleming,
Fournier (*Maisonneuve-
Rosemount*),
Francoeur,
Glen,
Golding,
Goulet,
Grant,
Green,
Héon,

Homuth,
Isnor,
Kennedy,
Leader,
MacInnis,
MacNeil,
McCann,
McDonald (*Pontiac*),
McGeer,
McKinnon (*Kenora-Rainy River*),
McLean (*Melfort*),
McPhee,
Marshall,
Needham,
Patterson,
Purdy,
Rickard,
Slaght,
Stewart,
Stirling,
Taylor (*Norfolk*),
Thauvette,
Tremblay,
Turgeon,
Wood.

A. L. BURGESS,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, January 27, 1939.

Resolved,—That the following members do compose the Standing Committee on Public Accounts:—

Messieurs Ahearn, Anderson, Barry, Beaubien, Black (*Chateauguay-Huntingdon*), Blais, Blanchette, Bothwell, Brooks, Casselman, Church, Douglas (*Weyburn*), Dussault, Elliott (*Kindersley*), Factor, Ferland, Fleming, Fournier (*Maisonneuve-Rosemount*), Francoeur, Fraser, Glen, Golding, Goulet, Grant, Graydon, Homuth, Isnor, Leader, MacKinnon (*Edmonton West*), MacNeil, McCann, McDonald (*Pontiac*), McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), Marshall, Mullins, Needham, Patterson, Purdy, Rickard, Rowe (*Athabaska*), Slaght, Stewart, Streight, Taylor (*Norfolk*), Thauvette, Tremblay, Turgeon, Wermenlinger, Wood—50.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 3, 1939.

Ordered,—That the Public Accounts and the Report of the Auditor General for the fiscal year ending March 31, 1938, be referred to the Standing Committee on Public Accounts.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, February 13, 1939.

Ordered,—That a copy of the Agreement between the Government and the John Inglis Company of Toronto, for the manufacture of Bren Machine Guns, the Report of the Royal Commission dealing with the said Agreement, and all related documents, evidence, vouchers and exhibits, be referred to the Standing Committee on Public Accounts.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, February 16, 1939.

Ordered,—That the name of Mr. McGeer be substituted for that of Mr. Streight on the said Committee.

Ordered,—That the name of Mr. McPhee be substituted for that of Mr. MacKinnon (*Edmonton West*) on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, February 20, 1939.

Ordered,—That the name of Mr. Dupuis be substituted for that of Mr. Dussault on the said Committee.

Ordered,—That the name of Mr. Bertrand (*Laurier*) be substituted for that of Mr. Blais on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, February 21, 1939.

Ordered,—That the name of Mr. Stirling be substituted for that of Mr. Casselman on the said Committee.

Ordered,—That the name of Mr. Brown be substituted for that of Mr. Graydon on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, February 22, 1939.

Ordered,—That the name of Mr. Héon be substituted for that of Mr. Wermenlinger on the said Committee.

Ordered,—That the name of Mr. Bercovitch be substituted for that of Mr. Mullins on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, February 27, 1939.

Ordered,—That the name of Mr. Kennedy be substituted for that of Mr. Elliott (*Kindersley*) on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 1, 1939.

Ordered,—That a copy of the Agreement between the Government and the Montreal Construction Supply and Equipment Limited, Montreal, Quebec, for the machining of billets and forgings in the manufacture of shells, together with all related Orders in Council, documents, correspondence, minutes of the Inter-departmental Committee, and statements of claim, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 1, 1939.

Ordered,—That the name of Mr. MacInnis be substituted for that of Mr. Rowe (*Athabaska*) on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 6, 1939.

Ordered,—That all contracts entered into by the Department of National Defence and tabled in this House be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 16, 1939.

Ordered,—That the said Committee be given leave to print from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be given leave to sit while the House is in session.

Ordered,—That the said Committee be given leave to employ clerical and stenographic assistance.

Ordered,—That the said Committee be given leave to sit for a period not exceeding two days, in the City of Toronto, and that the payment of any travelling expenses incurred be authorized.

Attest.

THO. M. FRASER,
Assistant Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, March 9, 1939.

The Standing Committee on Public Accounts begs leave to present the following as its

FIRST REPORT:

Your Committee recommends that it be empowered:—

- (1) to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;
- (2) to sit while the House is in session;
- (3) to employ clerical and stenographic assistance;
- (4) to sit, for a period not exceeding two days, in the City of Toronto, and that the payment of any travelling expenses incurred be authorized.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 9, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Barry, Beaubien, Bercovitch, Bertrand (*Laurier*), Black (*Chateauguay-Huntingdon*), Blanchette, Bothwell, Brooks, Douglas (*Weyburn*), Dupuis, Factor, Ferland, Fleming, Francœur, Fraser, Glen, Golding, Goulet, Grant, Green, Héon, Homuth, Isnor, Kennedy, Leader, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), Marshall, Needham, Purdy, Stewart, Stirling, Taylor (*Norfolk*), Thauvette, Tremblay, Turgeon, Wood.

The Chairman outlined the matters referred to the Committee.

On motion of Mr. Bercovitch:

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Leader:

Resolved,—That the Committee ask leave to sit while the House is sitting.

On motion of Mr. Glen:

Resolved,—That the Committee ask leave to employ clerical and stenographic assistance.

On motion of Mr. MacNeil:

Resolved,—That a sub-committee on agenda be appointed, comprised of seven members to be named by the Chairman, and that said sub-committee be requested to report to the main committee with regard to the presentation of evidence.

On motion of Mr. McGeer:

Resolved,—That the engaging of clerical and stenographic help be left to the agenda committee.

On motion of Mr. MacNeil:

Resolved,—That a copy of the evidence heard before Mr. Justice Davis be tabled and placed in the custody of the clerk, and that authorization be obtained to procure all additional copies now available for the purposes of the Committee.

The Chairman explained that three copies of the evidence given before Mr. Justice Davis, the Commissioner appointed to inquire into the Bren Machine Gun Contract, were presently available to the Committee and that a fourth could be purchased from the reporter employed by the Royal Commission.

On motion of Mr. MacNeil:

Resolved,—That the question of procuring the fourth copy be referred to the agenda committee.

On motion of Mr. Bothwell:

Resolved,—That exhibits and other papers in the possession of the Committee shall remain in the office of the Chairman where they may be examined by members of the Committee.

In relation to the Bren Machine Gun Contract, it was moved by Mr. Bercovitch:

That the Committee ask leave to sit, for a period not exceeding two days, in the City of Toronto and that the payment of any travelling expenses incurred be authorized.

After discussion, Mr. Isnor moved, in amendment:

That a representative sub-committee, consisting of seven members and the Chairman, be appointed to visit the John Inglis plant and make a report respecting its inspection and survey, and report to the main committee.

Discussion followed.

The amendment negatived: *Yeas*, 7; *Nays*, 21.

The question being put on the motion of Mr. Bercovitch, it was resolved in the affirmative on the following recorded division:—

Yeas,—Messrs. Barry, Beaubien, Bercovitch, Bertrand (*Laurier*), Black (*Chatauguay-Huntingdon*), Blanchette, Bothwell, Factor, Ferland, Fleming, Francœur, Glen, Golding, Goulet, Grant, Isnor, McCann, McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), Needham, Purdy, Taylor (*Norfolk*), Thauvette, Tremblay, Turgeon, Wood—27.

Nays,—Messrs. Brooks, Douglas (Weyburn), Green, Homuth, Kennedy, Leader, MacInnis, MacNeil, Marshall, Stewart, Stirling—11.

At 1 o'clock p.m. the Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

FRIDAY, March 17, 1939.

The Standing Committee on Public Accounts met at 11 a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Anderson, Barry, Bercovitch, Black (*Chateauguay-Huntingdon*), Blanchette, Bothwell, Brown, Douglas (*Weyburn*), Dupuis, Factor, Ferland, Fleming, Fraser, Glen, Golding, Goulet, Grant, Green, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McKinnon, (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Needham, Patterson, Purdy, Rickard, Slaght, Stewart, Stirling, Taylor (*Norfolk*), Thauvette, Turgeon, Wood.

Complying with the authority conferred upon him at the last meeting, the Chairman notified the Committee that he had appointed Messrs. Bercovitch, Green, Isnor, MacNeil, McGeer, McPhee, Marshall, Slaght, Stewart as a sub-committee on agenda.

The Chairman presented a report from the sub-committee on agenda containing various recommendations. Resulting therefrom, the following resolutions were adopted, viz.:—

1. On motion of Mr. McPhee:

Resolved,—That Lieutenant Jolley and Cost Accountant Dawson, both of the Department of National Defence, do accompany the Committee to Toronto as witnesses.

2. On motion of Mr. Glen:

Resolved,—That the clerk of the Committee do accompany the Committee to Toronto.

3. On motion of Mr. Golding:

Resolved,—That Miss Ruth Turner be employed as a stenographer, at the rate of \$5 per day, commencing Monday, March 20, 1939.

4. On motion of Mr. Golding:

Resolved,—That the Committee purchase one copy of the evidence given before the Royal Commission on the Bren Machine Gun Contract from the reporter employed by the Commission, Mr. E. L. Featherston, for the sum of \$300.

5. *Ordered*,—That Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax and a member of the Interdepartmental Committee, and Colonel R. J. Orde, of the Department of National Defence, be called as the first witnesses and that they be requested to be prepared to furnish the Committee with an analysis of the Bren machine gun contract.

On the suggestion of the Chairman, it was ordered that the clerk keep a record of the members of the Committee who attend at Toronto to inspect the John Inglis Company plant.

Mr. Factor informed the Committee that he had received an invitation from the city clerk of the corporation of the city of Toronto to the members of the Committee to a dinner which the corporation has arranged at the Royal York Hotel on Saturday at 6 o'clock.

On motion of Mr. Bercovitch:

Resolved,—That a vote of thanks be tendered to the corporation of the city of Toronto for their kind invitation.

The Committee adjourned until Tuesday, March 21, at 11 a.m.

A. L. BURGESS,

Clerk of the Committee.

TUESDAY, March 21, 1939.

The Standing Committee on Public Accounts met at 11 a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Barry, Bercovitch, Bertrand (*Laurier*), Black (*Chateauguay-Huntingdon*), Blanchette, Brooks, Brown, Douglas (*Weyburn*), Factor, Ferland, Fleming, Francœur, Fraser, Glen, Golding, Goulet, Grant, Green, Héon, Homuth, Kennedy, Leader, MacInnis, MacNeil, McCann McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Needham, Patterson, Purdy, Rickard, Slaght, Stirling, Taylor (*Norfolk*), Thauvette, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

The Chairman stated that he had been informed by the clerk that the following members of the Committee had attended at Toronto on Saturday, March 18, to inspect the plant of the John Inglis Co. Limited: Messrs. Barry, Bercovitch, Brown, Factor, Fleming, Fraser, Glen, Golding, Grant, Green, Isnor, Kennedy, Leader, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), Marshall, Needham, Patterson, Purdy, Rickard, Turgeon, Wood; and that four members of the house, not members of the Committee, had accompanied the Committee, viz.: Messrs. Kinley, McGregor, Ward, Winkler.

The Chairman also informed the Committee that the total expenses incurred in connection with the visit to Toronto, apart from any accounts which might be submitted by individual members of the Committee, amounted to \$53.60, made up as follows:—

Expenses of the clerk—train fare, berth, meals, etc...	\$20 95
Bus from hotel to plant and return.. . . .	14 00
Rooms, Royal York Hotel, telephones, etc... . .	18 65
Total.. . . .	<hr/> \$53 60

Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue, was called, heard and questioned.

On the suggestion of Mr. McLean, it was decided to defer the completion of Mr. Elliott's examination until copies of the evidence already given by him were available to the Committee and to proceed with the examination of the next witness.

Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence, was called, heard and questioned.

The Committee adjourned until Wednesday, March 22, at 11 a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 277,

March 17, 1939.

The Standing Committee on Public Accounts met at 11 o'clock. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Now, gentlemen, I will go over what we have on the agenda and also give two or three explanations. My good friend, Mr. Karl Homuth, when speaking in the house the other day made some reference—I do not think it was intentional, and I did not want to make any correction in the house yesterday—that the meetings of the committee had been delayed after the resolution went through on February 13. I might explain the delay by saying that for the first two weeks we were trying to get together all the exhibits and because during the third week I was suffering from an attack of what is commonly known as the flu. I do not want anybody to feel that as far as I was concerned the meetings of the committee were delayed, and I hope my friend from Waterloo South will accept that explanation.

Mr. HOMUTH: Bill, I will always take your explanation for anything.

The CHAIRMAN: Thank you, Karl.

Now, I should apologize to Mr. Marshall that he was not sent a notice to attend the meeting of the sub-committee yesterday morning. I might explain to him that at the meeting of the committee last Thursday the chairman was authorized to choose an agenda committee, and we promptly did this on Friday. It was suggested between Friday and last Tuesday by some members of the sub-committee that the sub-committee should be enlarged from seven to nine members in order to give representation to the group represented by my friend from Camrose; and as my friend from Vancouver North knows, it was agreed that the sub-committee should be enlarged. In this connection I tried to get in touch with the whip of the social credit group but he was out of town. I did get in touch with Mr. Blackmore and also with Mr. Quelch, and Mr. Quelch sent me a note suggesting that Mr. Marshall's name be added to the sub-committee. The sub-committee so increased to nine included my good friend from Yorkton. We then had the responsibility of notifying the personnel of the sub-committee. I assured Mr. Blackmore yesterday that the reason for Mr. Marshall not getting his notice for yesterday morning's sub-committee meeting was two-fold: one, on account of the fact that when he was called at his office he was not there and, two, because of neglect. I wish to clear up those two points so that the worst we could be accused of was, perhaps, carelessness in so far as Mr. Marshall is concerned.

Mr. BOTHWELL: I think I should call attention to the fact, Mr. Chairman, that the acoustics in this room are extremely bad. It is almost impossible for us to hear you speaking now in the front seat.

The CHAIRMAN: In accordance with the motion passed at the last meeting of the committee I beg to report that the following have been named as a sub-committee on agenda: Messrs. Bereovitch, Green, Isnor, MacNeil, McGeer, McPhee, Marshall, Slaght, Stewart. That committee has met twice, once on Tuesday and once on Thursday, and the sub-committee on agenda recommends that following the examination at the John Inglis plant in Toronto as proposed by the committee, the committee at its next meeting proceed to the consideration of the Bren gun contract; (b) that Mr. Fraser Elliott, K.C., Commissioner

of Income Tax, and member of the interdepartmental committee, and Colonel R. J. Orde of the Department of National Defence, be called as the first witnesses, and that they be prepared to furnish the committee with an analysis of the contract; (c) that Lieutenant Jolley, and cost accountant Dawson, both of the Department of National Defence, accompany the committee on its visit to Toronto as witnesses; that the clerk of the committee accompany the committee to Toronto; that Miss Ruth Turner be employed as stenographer at the rate of \$5 per day.

Now, gentlemen, it will be necessary to get these resolutions properly moved.

Carried.

It is moved by Mr. Golding that Miss Ruth Turner be employed as a stenographer at the rate of \$5 per day commencing March 20, 1939. I might explain that the reason for choosing this lady is that she was the stenographer attached to the Agricultural Implement investigation two years ago.

Hon. Mr. STIRLING: What would her duties be?

The CHAIRMAN: I do not know whether my friend was here when we discussed this matter before, but the idea is to hold room 504 for the use of the committee and to have a stenographer in attendance to look after the compiling of evidence and the general work of the committee. It will probably be necessary to employ a clerk as well in order to have available the evidence from time to time for the use of the committee.

Mr. MACNEIL: Mr. Chairman, as you have said it has become evident that there will be a good deal of stenographic work in connection with furnishing members of the committee with excerpts of the evidence and copies of exhibits and general clerical work, and I endorse the statement that stenographic help should be secured for the committee.

Carried.

The CHAIRMAN: It is moved by Mr. McPhee that Lieutenant Jolley, and cost accountant Dawson both of the Department of National Defence do accompany the committee to Toronto as witnesses.

Mr. GREEN: There is something wrong with that. I refer to the last two words. It was understood by the agenda committee that there would be no evidence taken and that these men were to go simply to explain things to individual members.

The CHAIRMAN: Mr. Green, the clerk explains to me that it is only by adding those two words that we can get the expenses of these two men paid.

Mr. GREEN: It should be definitely understood that there is no evidence to be taken.

Mr. MACNEIL: They will likely give evidence before the committee later on.

The CHAIRMAN: Yes. That is the reason for those two words.

Mr. GREEN: That statement was made in the house yesterday by Mr. McGeer.

Mr. MACINNIS: Is not that agreement arrived at contrary to the motion moved in the house, that the committee go to Toronto to inspect the plant and to take evidence—to hear evidence? Is the sub-committee going to overrule actions arrived at by the whole committee?

The CHAIRMAN: It would probably be better for my friend from North Vancouver to answer that.

Mr. FACTOR: In reply to that remark I may say that the solution is very simple; we have authority to take evidence but we are not compelled to take evidence. Apparently the sub-committee decided that no evidence would be taken.

Mr. MACINNIS: In view of the statement made by Mr. McGeer in the house yesterday, that we would find in the sub-committee various things would be done which were not necessarily approved by the committee, I take this first opportunity to say that there will be nothing done either in the sub-committee or in the committee as a whole with which I disagree, that I shall not be heard on. I know Mr. McGeer very well, and I know his bulldozing tactics; but it is not going to go with me either in the sub-committee or anywhere else. Now, I have no objection to co-operating and working in the greatest harmony with the committee, but I wish it understood that conclusions will not be arrived at here and other conclusions arrived at in the sub-committee and that those will be the overriding conclusions.

Mr. MCPHEE: Mr. Chairman, as a member of that committee I resent the insinuations made by my friend, Mr. MacInnis. We had a most harmonious meeting of the sub-committee yesterday and we decided that in view of all the circumstances it might not be practicable to take evidence in Toronto. I do not know what my friend refers to in his insinuations that Mr. McGeer said something or is adopting some tactics that are not agreeable to him. In the sub-committee yesterday Mr. McGeer acted fairly, and I am sure Mr. Green will bear me out in that. I think it is only throwing a monkey-wrench into the machinery for anyone to impute improper motives to any member of the sub-committee.

Mr. MACNEIL: In the course of the discussion that took place in the agenda committee, it became evident that it would be very difficult to hold formal sittings in the city of Toronto; that it might extend the meetings beyond the two days; that it might require the establishment of a staff there and make it necessary to procure further accommodation; and I rather yielded to the suggestion of the chairman that all those witnesses that were interviewed in Toronto would subsequently be called before the committee in Ottawa and we should have an opportunity to cross-examine them. It was my intention, however, to-day to ask the chairman as to his intentions with regard to the record of the committee when this committee does visit Toronto. In what way will the trip be recorded? Will there be a record of questions asked and answers given? Will that be regarded as notice that similar questions will be asked later of the same witnesses. I am anxious to avoid any misunderstanding with regard to answers given at the plant with respect to which some members may have a difference of opinion.

Mr. DUPUIS: I do not believe that those questions and answers given in Toronto during the visit to the plant should be part of the record, unless the sub-committee have decided to begin the committee's inquiry in Toronto.

Mr. MACNEIL: What will the record be?

Mr. NEEDHAM: I understand that it is definitely moved that the committee go to Toronto and be prepared to take evidence. Now, I do not think the steering committee have a right to come to decisions and say that there will be no evidence taken. That is the function of this committee. To come to a decision that there will be no inquiry is going a bit too far for a steering committee. The steering committee should report back to this committee and have this committee decide.

Mr. MACINNIS: I would like to point out that those who proposed this visit to Toronto made it quite clear that this was the first step in the inquiry—the first necessary step in the inquiry. Now, it has transpired that the whole idea is just to go and have a look at the plant.

Mr. DUPUIS: I understand that the members of the sub-committee were agreed on this, and I also understand that on that sub-committee there are representatives of all the parties concerned. I also understand that a member of the sub-committee is supposed to represent his party. Personally, I do not

object to beginning the inquiry in Toronto because I would like to spend two or three weeks in Toronto. The Toronto people are so courteous. We of the province of Quebec sometimes think that we exhibit the maximum of courtesy and friendship, but I am a bit jealous of the degree to which those qualities are possessed by the people of Toronto. They always receive their visitors very kindly and give them everything to enjoy themselves. So I say I have no objection to beginning the inquiry in Toronto. However, as a member of the committee I am prepared to abide by the decision of the sub-committee because that decision is based on sound reason. If we commence the inquiry in Toronto the meetings might last for four or five days.

MR. GREEN: Mr. Chairman, as a member of that sub-committee I should like to confirm what Mr. McPhee has said, that our discussions have been most harmonious. As a matter of fact we cannot do business in any other way. If the steering committee fight among themselves it will be just too bad for the whole committee. Now, we are only going to be in Toronto for one day and spend a few hours in the morning in the factory, and it was considered impossible to go into a lot of evidence under those conditions. Also, we have not yet laid the foundation for the inquiry and have not gone far enough to be able to carry on an intelligent examination of witnesses in the factory in Toronto. The idea was that later on we could call men from that factory to Ottawa, if necessary.

Now, I did not agree at the last meeting that we should go to Toronto at this stage at all. I thought it was very foolish. However, I do not see very much reason for quarreling on the point as to whether we are going to take evidence or not. The idea of the sub-committee was reasonable—that we should not take evidence at this stage.

MR. MACNEIL: Mr. Chairman, may I ask, through you, Mr. Bercovitch, who is the mover of this motion, if it is his intention as a result of our visit to the plant and the inspection of the plant to make a report before the committee? Will there be any document as a result of this visit?

MR. BERCOVITCH: No, I did not have in mind any report as a result of the visit to the plant. I did have in mind that we should take some evidence when we got to Toronto—that we should have the plant explained to us by someone—that we should at least take their evidence. Unfortunately, I received no notice to attend the meeting of the steering committee yesterday. I did not know there was a meeting and did not appear. I do think we could go on and inspect the plant along with whoever is explaining the mechanism or machinery in the plant to us and we might have their words recorded by a reporter that we engage. Questions asked and answers given to us might be taken down and in that way we would have some record of our visit to Toronto, and later on we could discuss that.

MR. GREEN: Now, Mr. Chairman, that is the taking of evidence and is directly contrary to the agreement reached in the sub-committee yesterday. We agreed yesterday, as you know, that this is to be merely a visit of inspection, and if an attempt is to be made to take evidence—to take the story of anybody at all or to bring back a written report of any kind—then that action is definitely contrary to the arrangement made in your office yesterday and I say that should not be allowed.

MR. BERCOVITCH: I am not saying it should be allowed. I am merely answering the question of the hon. member. I do not remember what I had in mind at the time I moved the motion.

MR. MCCANN: What official record will there be that we have visited Toronto at all unless we have a formal sitting and take evidence of some kind even though it is very short?

Mr. MACINNIS: Mr. Chairman, this discussion justifies the point I raised in the beginning. Here we have from the mover of the motion the intention of the motion that was passed here last week, and now we have a different decision from that of the committee as a whole.

Mr. TURGEON: It is a recommendation, not a decision.

Mr. MACINNIS: Yes, I quite understand that; but the recommendation nullifies or throws aside the decision we arrived at as a committee, and as a matter of fact it shows up and justifies all the objection that was raised against it.

Mr. BOTHWELL: It strikes me that we are getting the best kind of evidence when we inspect that plant. We are taking evidence without a doubt, just as a jury does—a coronor's jury when it goes out to inspect something.

Mr. McCANN: No; unless it is done in black and white.

Mr. GREEN: There is no record at all.

Mr. HOMUTH: My understanding of the situation is that the agenda committee arranged that those members who so desired could go to Toronto and be shown over the plant, and that as they went through the plant whoever was in charge would explain the various workings at the plant. Now, any of you who have inspected a plant will readily understand that it will be quite impossible for anybody to go along and take a record of what is being said or what is being explained. My understanding was that the committee wanted to see how the plant was located and also wanted to see the equipment. Now, does it matter to this committee whether there are two vertical mills or three horizontal mills? How many of the committee would know which is which? It is a question of seeing the equipment—the view of the thing. The explanation as to whether there are two or three lathes or half a dozen lathes does not mean anything.

The CHAIRMAN: I would like to cover Mr. Needham's point. This committee authorized the appointment or selection of a sub-committee representing the various factions in the committee as set up. Now, the sub-committee has met on two occasions this week, and the sub-committee decided on recommendations I have submitted to the committee this morning. It was the intention of the sub-committee, as mentioned both by Mr. Green and the hon. member for Vancouver North, that we go to Toronto and make an official inspection of the plant without taking evidence.

Now, with regard to Mr. McCann's statement, might I suggest to the committee that the clerk be authorized to make a note of the members who attend at Toronto and inspect the plant, and that the only thing we have in the minutes of the committee is that so many members went to Toronto on a certain day and made an official inspection of the John Inglis plant. Can we arrive at it that way?

Have you any objections?

Motion agreed to.

Mr. FACTOR: Will you pardon me for a moment, Mr. Chairman? I have to go to another committee that is rather important, but I should like to say that I just received a long-distance call from the city clerk of the corporation of the city of Toronto extending an invitation to the members of the committee to a dinner that the corporation has arranged at the Royal York at 6 o'clock on Saturday. I also wish to announce any gentleman on the committee who desires to attend the hockey match to-morrow night may do so. Mr. Connie Smythe has informed me that he will be glad to arrange for tickets to be supplied to the members desiring to go.

Mr. BERCOVITCH: I move a vote of thanks to the corporation.

The CHAIRMAN: You have all heard the remarks of the hon. member from Toronto. Mr. Bercovitch has moved a vote of thanks to the corporation. Are you in accord with that motion?

Motion agreed to.

The CHAIRMAN: We have two more items to deal with this morning, and unless some other member has a motion to put forward that will conclude our business.

Mr. McLEAN: I should like to move that the next sitting of the committee be held in this room and that the chairs and tables be placed the other way. If we sit the other way it will be much easier to hear than it is now.

The CHAIRMAN: I think this resolution has been put to the committee before, but the clerk is not quite sure of it. It was moved by Mr. McPhee that Lieutenant Jolley and cost accountant Dawson of the Department of National Defence accompany the committee to Toronto. There was some objection taken to the addition of two words "as witnesses." It is necessary to have these words in the resolution in order to take care of their expenses.

Mr. DUPUIS: They are representatives of the Department of National Defence?

The CHAIRMAN: Mr. Jolley is in the ordnance branch, I believe, and Mr. Dawson is cost accountant.

Motion agreed to.

Mr. DOUGLAS: Can these gentlemen give us any information as to what machinery has been put in recently, how much it cost, and so on?

The CHAIRMAN: Yes.

Mr. DOUGLAS: We will be able to get it to-morrow?

The CHAIRMAN: Yes. I have two certificates here which are necessary to enable the committee to call witnesses. I was going to suggest that the next meeting of this committee be held at 11 o'clock on Tuesday morning and these two witnesses be called. These are the certificates empowering the committee to call these witnesses as suggested in the recommendation of the subcommittee. The witnesses I have in mind are Fraser Elliott, K.C., and Colonel R. J. Orde of the Department of National Defence. Is there any objection to that?

Mr. PATTERSON: I might say I happen to be a member of the radio committee and this committee. Their meetings seem to clash. I wonder if there is any way to stagger them, so one will not interfere with the other?

The CHAIRMAN: The radio committee is not going to sit next week.

Mr. MCPHEE: I am not sure whether the report of the subcommittee was adopted?

Some Hon. MEMBERS: Yes.

Mr. DUPUIS: I am in the same position as other members of this committee. I am a member of the radio committee and some other committees, and I am unable to attend them all. I do not know if there is a motion adopted which states that this committee will not go all over again the evidence that was given before the royal commission. If that motion has not been adopted I would suggest that this committee do that, and that arrangements be made whereby each member of the committee will be supplied with a copy of the evidence taken before Judge Davis. That evidence should suffice, and we should not go all over the evidence again.

The CHAIRMAN: As an explanation to the committee in that respect, I may say we have an agenda committee. This matter was discussed before the subcommittee yesterday and it was thought advisable that before every regular meeting of the committee, the agenda committee should discuss what would

be taken up at the next meeting. That is why I submitted the recommendation this morning covering only the next general meeting. Secondly, it is the intention of the agenda committee to arrange to have available in room 504 four copies of the evidence taken by Judge Davis. There will be a stenographer and a clerk in that room to assist members to procure any portion of the evidence that they may require. In addition to that there will be copies of the exhibits that were filed at the other inquiry available. Every possible assistance will be given to each and every member of this committee to procure anything that he requires by arranging to call at that room.

Mr. DUPUIS: Mr. Chairman, my experience in parliament induces me to conclude that the procedure which is followed in committees of the house and in the committees of the whole is similar to the practice in courts. Because of that experience I am strongly in favour of not going over again the evidence that was heard by Mr. Justice Davis. As a matter of fact the royal commission is the greater tribunal, and this committee is the lesser. The greater contains the lesser. As far as I am concerned, I believe this committee is useless; but as it was decided upon by the house I respect it. I should like this committee to decide very clearly that as far as possible we shall not go over again the same questions that were dealt with by the commissioner. We should take that evidence as granted. Every member of the sub-committee should be supplied with the evidence, and we should do as lawyers do in court when evidence has been taken before in minor court and it is necessary to go to the court of appeal. When that happens the only thing we do is to take that part of the evidence that we desire to use to assist us in our argument. I do not know whether I have the support of this committee or not, but if I could have it I should like very much to see a motion passed saying very clearly that we shall not go over again the evidence that was taken previously. Unless we do that we shall find that this session will not be long enough for us to finish the enquiry.

The CHAIRMAN: In reply to my hon. friend, I should say that I do not believe a motion of that nature would be in order, to begin with. Secondly, as was expressed by one member of the steering committee this morning, Mr. Green, I believe, the committee as a whole can rely on the judgment of the steering committee, on which all phases of opinion are represented, to continue as they have begun, in a most friendly and harmonious manner. I am sure that the steering committee will confine the enquiry to as limited a scope as is considered necessary properly to conduct the investigation. I do not believe my hon. friend has very much to fear. I quite appreciate his anxiety but I think he can rely on the members of the steering committee not to enlarge the enquiry any more than is absolutely necessary.

Mr. DUPUIS: I am in the hands of the committee. I am only a humble member of it but I am of the opinion that we should try to confine the enquiry to new evidence. The royal commission has made a finding, and if that finding does not meet with the approval of certain members I suppose they have some new facts to produce before this committee. I am of the opinion that only new facts should be presented. That is my view.

Mr. BERCOVITCH: Is there any further business this morning?

The CHAIRMAN: No.

Mr. BERCOVITCH: I move we adjourn.

The CHAIRMAN: The committee will adjourn now, to meet on Tuesday morning at 11 o'clock.

HOUSE OF COMMONS, ROOM 368.

March 21, 1939.

The Standing Committee on Public Accounts met at 11 o'clock. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order we shall proceed. The first thing we shall deal with this morning is the trip to Toronto. I shall ask the clerk to read the names of the members who attended our meeting in Toronto on Saturday.

The CLERK: The following members of the committee attended at Toronto on Saturday, March 18, to inspect the plant of the John Inglis Company Limited:—

Messrs.

Barry,
Bercovitch,
Brown,
Factor,
Fleming,
Fraser,
Glen,
Golding,
Grant,
Green,
Isnor,
Kennedy,
Leader,

MacInnis,
MacNeil,
McCann,
McDonald (Pontiac),
McGeer,
McKinnon (Kenora-Rainy River),
Marshall,
Needham,
Patterson,
Purdy,
Rickard,
Turgeon,
Wood.

The following members of the house accompanied the committee on its inspection of the plant: Messrs. Ward, Winkler, McGregor, Kinley.

The CHAIRMAN: The expenses incurred by the committee officially were travelling expenses for the clerk, \$20.95; bus fare from the hotel at Toronto to plant, \$14; accommodation at the hotel, for the members of the committee and the clerk's expenses at the hotel, including telephone calls, \$18.65; making a total of \$53.60. These expenses are the outside official expenses of the committee. If any member of the committee will give to Mr. Burgess a list of his personal expenses, they will be looked after.

This morning it was decided that we would call two witnesses, Mr. Elliott of the Department of National Revenue and Colonel Orde of the Department of National Defence. I presume it would be in order to call on Mr. Elliott first, unless somebody has something he wishes to ask or interject before we call Mr. Elliott?

C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, called.

The CHAIRMAN: It is not necessary to swear Mr. Elliott unless somebody wishes it done. I would suggest that we take the evidence without swearing him; but if anybody wishes to have him sworn, that is all right. Mr. Elliott is ready to proceed with his evidence.

The WITNESS: Mr. Chairman, I received notice from the clerk of the committee and in that notice it was suggested that I give an analysis of the contract. That analysis might be financial or it might be legal or it might be on other phases; but I took it that it meant an analysis of the contract principally from its terms, and therefore from its legal point of view.

The contract, as you know, so far as Canada is concerned, is a contract for the making of 7,000 Bren guns. The contract has to be performed within a period of six years. This period of six years is divided into two principal

[Mr. C. Fraser Elliott.]

parts. The first part is the two-year period called the preparation period, or some might call it the installation period. That is, the heavy capital machinery and the tools, dies and gauges required will be procured within the first two years of the contract and will be set up and the company should be ready to go into production at the end of two years. So the first two years I shall refer to as the preparation or installation period. At the end of two years from the signing of the contract the company goes into production and the first guns should be made within a period of four years over which the guns are spread, and in accordance with the terms of the contract, so many the first year, a little more the second year and so on as the schedule to the contract provides; so that at the end of the six years we have our 7,000 guns, and if not there is a breach of the contract.

That is the substance of the contract. When you come to its terms I should think it advisable to divide it into probably five parts. Some would not agree with that, but I think five parts would describe the contract. The first part is contained in sections 1 and 2 of the contract. I believe all members have a copy of the contract, Mr. Chairman?

The CHAIRMAN: Yes.

The WITNESS: By section 2 of the contract you will observe that the company undertakes to deliver the said 7,000 guns and the spare and component parts. Section 1 requires that the dominion supply the company with a licence to make these guns. That, I would imagine, would be the object or purpose of the contract and would be part one. Then we come to part two of the contract and I would call that the preparation or installation period, which is covered by section 3.

By section 3 of the contract the company is to install the machinery; that is the heavy machinery and tools, dies, jigs and gauges. In passing, I would suggest to the committee that they observe that the clause is "machinery, tools, dies, jigs and gauges," because later on we separate the machinery from the tools, dies, jigs and gauges. The machinery is regarded as heavy machinery or the capital machinery available not only for this contract, but having a longer life than this contract, available for future work. So also are the tools, dies and jigs, but they are of the lesser kind.

The machinery that is to be acquired in this period of preparation is not only to be suitable for this contract but is to be machinery that can be utilized in the manufacture of Enfield rifles, pistols and other small arms. The machinery and the tools, dies and jigs will be procured either by the crown or by the company itself. If it is procured by the company itself it must have the prior written approval of the crown. All machinery necessarily goes into the plant known as the John Inglis plant and in no other plant in any other part of Canada.

Now, continuing with the installation period, we come to section 3 (e). Section 3 (e) deals with the compensation that the contractor is to receive for the installation as compensation for the machinery, tools, dies, jigs and gauges, and for the engineering plant and installation and other services, including those of a preliminary nature required for the full equipment of the plant. The contract provides that the crown shall pay two-thirds of the cost, the other one-third is received by the contractor by virtue of another contract with England. The payment of the two-thirds by Canada is provided for in the paragraphs numbered (1), (2), (3), (4) and (5). Then Nos. (1), (2), (3) and (4) of this sub-paragraph (e) are straight costs. That is, we are to pay two-thirds of the actual out-of-pocket expenses incurred in buying the machinery, tools, dies and jigs. The paragraph numbered (5) is the ten per cent that we are to pay on the cost. When you come to look at section numbered (5) of paragraph (e) you will observe that we are to pay ten per cent on the actual cost of tools, dies, jigs and gauges. Observe that the word "machinery" is not there. That is, we do not pay ten per cent on the acquisition of the heavy machinery; the idea being that the crown

itself can buy with equal skill the heavy machinery for the making of this gun or any other arms. Therefore, we do not have to have any technically skilled special officers of this company to do the work; our own technicians have sufficient knowledge in that regard; therefore we do not have to pay ten per cent of the cost of the machinery. We do pay ten per cent for setting up and installing it in the plant; but that is distinct from its purchase price.

By Mr. MacNeil:

Q. Where is that provided for?—A. That is provided for in the last part of section numbered (5) in paragraph (e). If you will just let the question stand for a minute, I think I shall come to it.

It is important that you observe that distinction that I have just made, that the machinery capital cost is not burdened with a ten per cent addition, but the tools, dies and jigs, as I was developing or about to develop, were to have the ten per cent addition, for this reason; the contractor was going to carry the tools, dies and jigs into the operating period and be responsible for the production of an instrument, the tolerances of which were very minute. Therefore he said, and it was thought reasonably, that he should exercise his own skill and the skill of his own officers in the acquirement of the tools, dies and jigs, because failure therefor would be wholly on his shoulders if there are rejections, and should not be in any way linked with the officers of the crown. Therefore, in exercising his skill in the purchase of tools, dies and jigs in the preliminary or preparatory period, your contract provides that there would be ten per cent on that purchase and installation.

You will observe that we pay on the tools, dies and jigs whether they are manufactured in the plant of the company or whether they are purchased from other sources.

Now we come to the last part of paragraph numbered (5), and a question was asked as to the ten per cent on the work of installing the capital machinery. You will observe that the last part of paragraph (5) states: "ten per centum of such costs as are mentioned in paragraph (4) of this section." That is the immediately preceding paragraph. If you go to paragraph (4) you will find that refers to the costs in section 5 of the contract; and if you go to section 5 you will find that in that section is a long series of costs such as wages paid for labour employed directly on the production of the said guns, the construction of the special tools, jigs, dies and gauges required for maintenance, the delivery of the guns, wages and salaries of indirect labour included in the personnel engaged in the shop supervision costs, engineering services, etc. I will not go over them all but there are two pages of them there enumerating all the costs that have to bear ten per cent. I repeat that because section 5 states that ten per cent shall be paid on the costs referred to in sub-section 4, and sub-section 4 says these costs are the costs mentioned in section 5 of the contract. Therefore we are to pay ten per cent on the costs referred to in section 5 of the contract.

Mr. McGEER: I do not wish to interrupt you, therefore I do not know whether this is the right place to ask this question or not?

The WITNESS: Interruptions do not matter, gentlemen, if you wish to make them.

Mr. McLEAN: It musses up the record.

By Mr. McGeer:

Q. The ten per cent you speak of is limited, in so far as it applies only to the operations, and on the whole I understand the figure comes down to an amount of— —A. The figure of \$267,000 is the maximum.

[Mr. C. Fraser Elliott.]

Q. The ten per cent on the whole operation is reduced down to a figure of something less than ten per cent?—A. There is no doubt about that. I am using the terms of the contract because in section 5 it refers to ten per cent. I am using that term. We must remember that is only in the course of development. This contract really has two features, as you suggest. One is to regard it as a ten per cent on cost contract; that is readily understood and commonly referred to in ordinary parlance among people dealing with these cases; but there is an over-riding clause which says that the profits shall not exceed \$267,000. Now, which of these two phases is the dominant phase, the \$267,000 or the ten per cent? Use whatever you like descriptively, but when you come to analyse it you find the \$267,000 over-riding profit is the dominant thing with the contract, and when you take the percentage of \$267,000 compared with the actual money we expend, you will find that ten per cent is only a descriptive term, and is not true of the amount of money paid in percentage that we pay of the total outlay. It is much less. I shall develop the accurate figure later on.

By Mr. Green:

Q. That \$267,000 is the figure set out in the letter of September 3, 1938?—A. But more particularly set out in section 4 of the contract, where it says, in the last part of section 4: "it being expressly agreed that the total amount payable under this clause and under section 3 (e) (5) of this contract shall not exceed the sum of two hundred and sixty-seven thousand dollars in respect of seven thousand guns as defined in schedule 1 attached hereto."

Q. That was covered in the letter of September 3?

Mr. BERCOVITCH: No, covered by the contract.

By Mr. Green:

Q. Let me put it this way: that was dealt with by the letter of September 3, 1938?

Mr. BERCOVITCH: No.

The WITNESS: If I can use my imagination, in your question you are referring to a letter that was passed between the company and the department after the contract was signed?

By Mr. Green:

Q. That is correct.—A. And referred to some extra work, or some work that had to be done in connection with the contract, and that work that the company undertook to do was said to be within the terms of the contract, and would also be governed by the over-riding profit of \$267,000.

Q. No. In the list on page 3 we find all the costs itemized.

Mr. McGEER: It is a question of whether the profits under the incentive clause would be in excess of \$267,000 or not. That letter was written to make that clear; that it was the intention of the company and the government that the incentive clause profits were to be included in the over-riding gross limit of \$267,000. That was not the point I had in mind.

By Mr. McGeer:

Q. If I may put it this way, this ten per cent proposition is qualified first by the limit of the over-riding gross profit limit of \$267,000?—A. That is right.

Q. It is also qualified by the fact that it applies only to the operation of the cost?—A. That is right.

Q. Involved in the production of the guns?—A. That is right.

Q. And it is qualified again in that it is a gross profit which is subject to any losses or rejections and things that would come in that category?—A. That is right.

Q. So that to state that it is a ten per cent cost plus contract is to use a very loose and general term; is not that so, Mr. Elliott?—A. Merely a descriptive term.

Q. Which does not very closely convey the facts of this contract, does it?—A. It does not.

By Mr. MacNeil:

Q. Do I understand you to distinguish between ten per cent on the gross during installation proper and ten per cent profits to be derived by the company from production?—A. Both these costs of ten per cent are governed by the \$267,000. That is, in the installation period we pay ten per cent on those costs to acquire the tools, dies, jigs and gauges.

Q. That is a full ten per cent?—A. Right, on the cost of those tools, dies, jigs and gauges, and ten per cent on the cost of installing in the preparatory period, both the capital machinery and the tools, dies and jigs; but we do not pay the ten per cent on the cost of the capital machinery or the heavy machinery.

By Mr. Factor:

Q. That is all included in the \$267,000 maximum?—A. Well, it is all covered. You cannot get more than \$267,000 out of this contract, either under the so-called ten per cent clause or the incentive clause.

By Mr. Green:

Q. What is that figure in the British contract?—A. \$183,000.

Q. So the total profit is \$267,000 plus \$183,000?—A. To the company from the two gun contracts there is \$450,000.

By Mr. Brooks:

Q. Can you tell us how you arrived at that particular figure of \$267,000?—A. Yes; the technical officials of England and of Canada arrived at a figure that was \$450,000 as the cost of making 12,000 guns.

Mr. GREEN: Profit?

By Mr. Brooks:

Q. Profit?—A. No, the cost of making 12,000 guns was set at \$4,500,000 and the profit on that was to have been ten per cent, or \$450,000. Now, dividing that between England and Canada in the proportion of seven-twelfths and five-twelfths, subject to such slight adjustment that I will not bother with, Canada pays \$267,000 and England pays \$183,000.

Q. What does that amount to per gun, about \$38?—A. Do you mean including capital cost, profit per gun?

Q. A little over \$38 per gun?

By Mr. Brown:

Q. The cost of the losses and rejections would not necessarily be deducted from that profit?—A. Yes, it would.

Q. They could have a lot of rejections and still make a profit of \$267,000?

By Mr. Bercovitch:

Q. Could they?—A. I do not think so.

By Mr. Brown:

Q. Why could not they?

Mr. McGEER: Because they do not get paid for anything that is rejected. They not only fail to get their profit but they do not get any allowance for it.

[Mr. C. Fraser Elliott.]

By Mr. Brown:

Q. They might make more profit than \$267,000 and the cost of the rejections might be deducted from the extra profit that they might make?—A. They have to bear the cost themselves. They are not reimbursed for that. The cost of any rejections comes out of their own pocket.

By Mr. MacNeil:

Q. Does this contract provide for the reimbursement of the cost of material?—A. No, because the rejections which would include the material that resulted in connection with it must be borne by the contractor himself.

By Mr. Brown:

Q. You will find that the profit includes overhead—

Mr. McLEAN: A point of order, I would like to draw to your attention that Mr. Elliott was giving his story in a form that would be very easy for us to follow on the record. Would it not be well to let him make his statement without interruptions?

The CHAIRMAN: In reply to the hon. member I would say that Mr. Elliott left himself open for this himself.

Mr. McGEER: I probably am to blame. I agree with Mr. McLean that we should let Mr. Elliott make his statement and examine him afterwards. I agree to be good from now on.

The CHAIRMAN: From now on we will decide to let Mr. Elliott proceed as he started, to go over the contract clause by clause, and question him afterwards, notwithstanding Mr. Elliott's kindness in permitting the interruptions.

Mr. WOOD: Mr. Elliott, when you are reading will you please state the page from which you are reading?

The WITNESS: I will. Well, picking up the thread of the story, I was at part 2 of the contract which related to section 3 of the contract, and I called it the preparation or instalment period. I have shown that we do not pay for the capital machinery; we do not pay ten per cent on the cost of capital machinery, but we do pay on the installation of it, the cost of installation and we pay ten per cent on the tools, dies, jigs and their installation. That, I believe, exhausts the preparatory period.

On page 4, paragraph (g) which is also part of section 3, is found a clause that is in our contract and is not in the British contract. That provides that all the machinery, the tools, dies and equipment that are installed in the plant shall at all times be and remain the property of the crown or the property of the party of the first part. That means that the one-third that England pays for the machinery, the heavy machinery, tools, dies and jigs and the cost of installation, comes to us without cost, and all the assets that are created belong to the crown.

By Mr. Green:

Q. What page are you reading?—A. Page four, sir, paragraph (g). I quoted from the end of the fourth line, namely that the machinery, tools, dies, jigs and equipment shall at all times be and remain the property of the party of the first part.

By the Chairman:

Q. The crown means Canada?—A. Yes. I am always talking of my own jurisdiction. I will summarize the rest of the paragraph. It simply means that if at any time we leave the machinery there for the use of the company in any other direction, that they must pay rent for it. So long as it is there and

maintained in a body we have to pay the cost of maintenance. The latter part of paragraph (g) refers to the cost of dismantling, if we want to take away the machinery which belongs to us. If we want to do that we have to pay the cost. Likewise, if we take it away and upset their permanent premises in so doing we have to restore their premises to the normal condition in which it originally was. That is a summary of the preparation or installation period and relates to the first two years of the contract.

Then, I come to the next part of the contract, and I would call it the production period, or the operations which are developed in the last four years. The production period commences in this contract on page 5 with section 4, and reads as follows: "Upon the provision and installation"—that is after the installation period is over—"of the said machinery, tools, dies, jigs and gauges, as aforesaid, being completed, the party of the second part shall forthwith proceed with the manufacture of the said Bren gun." In other words we have to go into production as provided for in section 2 hereof. That refers also to the spare and component parts.

Now, the price shall be—and I quote from paragraph (a) of section 4—"The sum of all costs, as hereinafter defined, properly incurred in connection with the manufacture of the said Bren gun and spare or component parts thereof, and

(b) Ten per centum of all such costs, except the following:

(1) Sales Tax.

(2) Customs duties which are paid directly or indirectly by the party of the second part in the performance of this contract or in connection therewith or are paid by parties with whom the party of the second part has, in the sense of profit sharing, contract, arrangement or contact.

(3) Royalties and licensing fees paid in connection with the use of patents and designs by the party hereof of the second part.

(4) Interest on bank loans mentioned in section 5(s).

(5) Depreciation mentioned in section 5(p)."

Outside of these exceptions we pay ten per cent on the cost of production. Further, and this is the governing clause: "It being expressly agreed that the total amount payable under this clause and under section 3(e) (5) of this contract shall not exceed the sum of two hundred and sixty-seven thousand dollars in respect of seven thousand guns as defined in schedule 1 attached hereto."

That one section covers the whole of the production period of four years.

Now, we come to the fourth part of the contract and that relates to cost and the accounting therefor, and the payment of these costs, and covers clauses 5 to 7.

Section 5 on page 5 of the contract deals with the costs. They "shall consist of the following specific items"—and there are two or more pages of them following—"to the extent that they are incurred in the performance of this contract."

Those costs in the next few pages are the normal costs that you would find in the carrying out of any contract in any manufacturing organization. I do not know that I will run through them item by item, but I will make this covering statement: That not any costs are to be incurred without the prior written approval of the department, so that the whole is under control—there can be no looseness.

That would carry us over to section 6 on page 9.

Mr. McGEER: Would you give us the specific instances of where that control is contained in the contract?

[Mr. C. Fraser Elliott.]

The CHAIRMAN: Will the honourable member permit his question to stand until later?

Mr. McGEER: I think it would be better if we had that now. A general statement was made.

The WITNESS: It is in many places. It runs all through the whole contract.

Mr. FACTOR: Mr. Chairman, there are two sets of numbers on our copies. Is Mr. Elliott referring to the number in the centre of the page?

The CHAIRMAN: It is the number in the centre of the page.

The WITNESS: Page 9, paragraph (t)—this is in answer to your question, Mr. McGeer:—

Notwithstanding anything herein contained it is expressly understood and agreed by and between the parties hereto that the general cost items referred to in all the immediately preceding paragraphs on these pages will, in respect to the extent that they are incurred in the proper carrying out of this agreement, be allowed in such amounts as the party of the first part may approve.

Does that answer your question?

Mr. McGEER: That is the general clause. That is in addition to several other protections in the contract. No item, as I understand it, in this contract is payable until it has been approved by the Department of Defence.

The WITNESS: That is right.

Mr. McGEER: And there is no appeal from that, apparently; at least, none that I could find in the contract? Is that right?

The WITNESS: There is a matter of equity coming in there. If there is something paid for, you could not arbitrarily throw it out.

Mr. GREEN: There is also an arbitration clause for any dispute.

Mr. GRANT: Mr. Chairman, with respect to interruptions, are lawyers exempted?

The CHAIRMAN: Not as far as I am concerned.

Mr. DOUGLAS: Mr. Chairman, I think we have all the information we want from Mr. Elliott. If we go on, I think it should be done in order.

The CHAIRMAN: Gentlemen, let us decide now for the second time that there be no more interruptions until we get through this contract.

The WITNESS: I was dealing with the period of costs, the monthly statements and the payments. That was the fourth part of the contract. I was at section 6. Section 6 just provides for monthly statements, monthly progress reports, and those are approved by the department under adequate supervision. On approval, the payment is made at the end of the month.

The amount of the payment, as you will observe in section 6, is 90 per cent of the actual cost, and 75 per cent of the 10 per cent of the cost.

Upon final acceptance of the gun, the crown will adjust any balances that have not adjusted themselves in the course of the monthly payments, for the purpose of assisting these provisional balances, because you are not going to wait until the end of the four years, particularly when we are taking delivery of the guns in the meantime. So that there are interim adjustment periods. With the receipt of 1,000 guns, putting a value on them, as the contract provides, of \$487, for example, on the first thousand guns, at a rate of \$487, the contractor should have received \$487,000; but the payments made in the meantime having been somewhat less, as described, he may have only received, say, \$420,000. Therefore we have to pay him the balance, at the expiration of the 1,000 guns to bring him up to date, of \$67,000, or in accordance with whatever may have been paid in the interim. It has to be paid off at the expiration of the delivery of a thousand guns.

Then the last adjustment period is at the end of the whole contract when all adjustments are taken into consideration. That is on page 10. You find the statement:—

a reconciliation will be effected between actual cost plus profit as defined in section 4 and advances paid under (a) and (b) of this section....

That simply refers to the final cleaning up that I have outlined.

Now, that exhausts the part of the contract that I would call the costs and the accounting and the payments, and we come to the fifth and last part of the contract. Like all such closing clauses, it might be referred to as the special clause with special conditions, and you have just got to take them seriatim to appreciate them.

The first one is the incentive clause, called 6a. I will just run over these clauses and we will come back to them. Perhaps somebody might want to discuss the "standard cost" clause.

Section 6a of the contract provides that the parties shall mutually agree within ninety days after production has commenced on what shall be a standard cost. That standard cost shall remain, and I quote now from the contract, line 6:—

in force for a period of time thereafter to be mutually agreed upon.

That means that there may be a kind of moving feast. We set the standard cost after ninety days from the point of full production, and we mutually agree that the standard cost for the next period of time will be whatever it is. That exhausts that period and then you will mutually agree for another period. So that one is not caught, if I may use that term, in setting a standard cost that will bind us for the whole four years, less ninety days. In other words, we can reduce the standard cost as the contractor's efficiency and acquaintance with his job increases.

Now, after the standard cost is fixed, we allow one quarter of the reduction below that standard cost in the cost of production to the contractor, and three-quarters goes in full to the crown. It is really an incentive clause or standard cost clause to evoke efficiency if possible.

Section 7 I am skipping because it is really a little out of place and belongs back with the costs and accounting, and I have covered it by a previous statement, so we go on to section 8, on page 11. That is a lien section, and it provides that each Bren gun in the course of construction be covered by a lien. Then the amount of the lien must be reduced by the monthly payments being applied in liquidation of the lien-holders' rights. That clause requires the department to see to the application of the funds it pays over to the contractor in liquidation of his costs. That is, if the bank had a lien on the goods in the premises of the contractor and we paid our monthly payments, our supervisor would know that there was a lien, and it is stated in the latter part of this section that the contractor will apply the monies as directed. And, of course, we require that they be applied on account of the lien, and thereby we own all the material supplied, and we keep these liens down in that way. That is the purpose of that section.

Section 9 is a special clause relating to delivery. It is a provision for delivery within the specified time in the contract. Delivery shall be made F.O.B. at the plant in Toronto, and of course, if delivery is not so made it is a breach of the contract. That is a usual clause.

Section 10 of the contract is not, of course, in the English contract, and gives us priority in delivery. That is, we have first claim upon the guns if we desire to exercise it.

Section 11 of the contract is just an inspection clause. We have the right at all times to inspect all materials and workmanship, and the crown shall have

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the right to reject any materials that are not up to standard, or require their correction at the cost of the contractor. Those costs, and I am quoting now from the contract, shall not be charged to the crown.

Mr. MACNEIL: With a proviso.

The WITNESS: Well, the proviso goes on, "shall not be charged to the party of the first part (that is Canada) if the defects in same which cause such rejection are the result of faulty workmanship or negligence on the part of the party of the second part and are not such as normally occur in the manufacture of Bren guns or spare or component parts thereof, according to accepted engineering standards." I did not read that because rejections must be based upon faulty material or bad workmanship. You cannot arbitrarily reject.

The next clause is clause 12 on page 12. It relates to employment. It provides that the contractor undertakes and agrees not to disclose or communicate any information, and that pertains of course to the plans and specifications of the gun itself, as well as other related information entirely in the category of war secrets.

But this section goes on to refer to employees. The contractor here agrees that he will not accept any person unless and until he has been furnished in writing with the name and address of such person, with the approval of the department. In other words, they could not possibly bring in some spy, or if they did it would be through the negligence perhaps of the department in not knowing enough about the person who came in and having approved of some undesirable person.

Section 13 is an arbitration clause in the case of disputes. It is the usual arbitration clause contained in government contracts. I do not think I will dwell upon it particularly, unless someone wishes to ask any question about it.

Section 14 provides that in the event of insolvency the Minister of National Defence may take possession of all plant, materials and guns and finished and unfinished work. The second point refers to the payments up to the amount of any such payments; that they shall have a lien on them if they cannot remove them. That is quite a usual section.

Then we come to section 15 which provides that no member of the Senate or House of Commons shall share or take any part of the contract, and of course that refers to third parties, not to the contract, and you gentlemen know more about that, being in the House of Commons Act and Senate Act, than I do.

Section 16 states that there shall not be any assignment or sub-letting without the sanction of the department.

Section 17 makes provision in the event of unreasonable delay or default or excessive costs. Then the department may serve the contractor with notice that within ninety days he must take steps to correct any one of those faults. If he fails to do it, the department may take possession of the plant machinery and equipment, or that part of it that is necessary for the performance of this contract.

Section 18 is a cancellation clause for no cause emanating from the contractor but just because the desire of the department may be to cancel the contract. If we do cancel it voluntarily, we, of course, have to pay. As paragraph (a) of section 18 provides, we have to pay for all inventory and make allowance for all payments that have been made in respect thereof.

But paragraph (b) is the important one, because if cancellation before production has commenced, that is, within the two year period, we are to pay \$43,750 by way of liquidated damages. The section goes on to provide, however, that inasmuch as we may have paid some profit during the course of the contract, as I described in the preparatory period, one would not cancel the contract by \$43,750 and also pay the profits that have been paid up to the time of cancellation. Therefore, in the ratio that the profit already paid up to the

time of cancellation bears to the \$267,000, that ratio shall go to reduce the \$43,750. If the contractor had earned his \$267,000 and then we cancelled the contract, we would have nothing to pay—we would cancel it without cost. That is a very remote possibility and I only mention it by way of demonstrating the effect of it.

Section 19 is the ordinary provision that he must at all times properly insure the material in his plant in which we have an interest.

Section 20 of the contract provides for the right to inspect at all times. They must keep the plant and books and everything open for inspection by officers of the crown.

The last section of the contract is a provision for police protection, if we want it.

Now, Mr. Chairman, that is the contract in its various parts; the object and the purpose, that is, the licence to manufacture 7,000 guns; the preparatory period of two years; the production period of four years; the costs, how they are to be paid, the accounting for them and the payment of them; and the fifth part is a summary of special clauses.

Mr. GREEN: What about the schedules to the contract?

The WITNESS: Well, the schedules to the contract are appended.

Schedule A, simply refers to the material that must be procured for the completion of the contract and relates principally to the capital machinery to be procured in the preparatory period.

Schedule B is the specification of the Bren gun and the spare and component parts. At the time of the making of the contract, they were not readily available, but the contractor undertook that they would be appended, and as they were appended he would call them part of the contract and undertake to make the gun in accordance with those specifications.

Schedule C relates to labour, and speaks for itself. It refers to labour conditions, schedule of wages and working day hours; said conditions and schedule to be furnished by the crown as soon as is reasonably possible after the same have been made available by the Department of Labour.

Schedule D is an important schedule because it states that between the twenty-fourth and the twenty-sixth month, that is, in the third year, we are to get 1,000 guns, and in the fourth year we are to get 3,000 guns, the fifth year 6,000, and in the seventh year 2,000. In speaking of "we," I am referring to England and Canada. That makes 12,000 guns; but as they are delivered, I pointed out that we had priority of selection.

In the next section are set out the wages and working times. I will not comment on that.

That, Mr. Chairman, is a general coverage of the contract.

The CHAIRMAN: Before we start asking Mr. Elliott questions, can we decide amongst ourselves that one member will wait until the other member finishes his questions so as to avoid cross-fire and thus lose time?

Mr. MacNEIL: I suggest we deal with it clause by clause, Mr. Chairman.

The CHAIRMAN: We can do that, but I am thinking more of interruptions and of keeping things on an even keel.

Mr. McGEER: I agree to what Mr. MacNeil suggested, to take it clause by clause.

Mr. McLEAN: Mr. Chairman, may I make a suggestion? Mr. Elliott has given us a very lucid explanation of the contract. It will appear in the record before our next meeting and it will enable members to go over it very much more carefully and put them in a better position to ask questions. Colonel Orde is here, and if he gives his story, would it not be possible to listen and get his

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story on the record before the next meeting, and perhaps in that way a great deal of time might be saved by members being able to study from the record the statements made to-day by these two gentlemen? Certainly no time would be lost.

The CHAIRMAN: I think that is a matter for the committee to decide.

Mr. MacNEIL: Would that suit the convenience of Mr. Elliott?

The CHAIRMAN: Some of the members of the committee might wish to ask questions now since Mr. Elliott's analysis of the contract is fresh in their minds.

Mr. DOUGLAS: What about Mr. Elliott's convenience?

The WITNESS: I am entirely at the disposal of the committee.

Mr. MacNEIL: We could hear Colonel Orde now and Mr. Elliott would be free to go. It might save some time to follow that procedure.

The CHAIRMAN: Is there any objection to that? If not, we will hear Colonel Orde now.

COLONEL R. J. ORDE called.

The CHAIRMAN: Gentlemen, Colonel Orde suggests that from the legal standpoint he might begin by giving his reasons why the contract was set up in the form and manner in which it appears. Is there any objection to that?

Mr. McLEAN: Agreed.

The WITNESS: (Colonel Orde). Gentlemen, what I may say will possibly be a slight repetition of my evidence given before the Davis Commission. The chairman agreed with me that possibly the mechanics of the contractual set-up might be of interest to the committee.

When the matter first arose on November 19, 1937, there was submitted to the department by the contractor one contract covering 12,000 guns. I think it was 10,000. It was either 10,000 or 12,000. However, the truth of it was that the government of Canada would be the sole contracting party with the John Inglis Company, guns would be delivered to the government of Canada, and, in return, we would supply the war office requirements. That was not approved in principle by the department. We then set about working out a contractual set-up whereby the government of Canada in respect of its requirements on the one hand and the war office with the contractor in respect of its requirements would deal entirely independently of each other so far as the contract was concerned. Any interlocking arrangement that might be required in the way of Canadian inspection and other like matters—because they were turning out the guns at one and the same time—would be a matter of internal arrangement between the two governments, and would have nothing to do with the contractor at all.

The result was that we prepared a contract for our own requirements of 7,000 guns. That, I think, explains why we have this set-up for 7,000 guns and why the ratio of five-twelfths and seven-twelfths, as explained by Mr. Elliott, comes into the picture at various stages in the transaction. I may be anticipating, but that also explains the one-third and two-thirds incidence of costs during the preparatory period.

If you will notice in section 3 (e), on page 3 of the contract, we only pay two-thirds of the cost. The war office pays the other one-third. And the contract reads exactly the same with regard to compensation, but not with regard to ownership of machinery. Their contract obliges them to pay the contractor one-third, but the contractor looks to the two sources for his remuneration in respect to the preparatory period.

I have nothing else to add there which would not be a repetition of Mr. Elliott's evidence. To go back to section 1 of the contract, which deals with the provision of licences, would the committee be interested in the background of the licence?

Mr. MACNEIL: Yes.

The WITNESS: I cannot pronounce the patentee's name; it is an unpronounceable name. The company is located at Breno, Czecho-Slovakia. The patentee, by an agreement of the 24th of May, 1935, with the Secretary of State for War, agreed as follows: The patentee granted to the Secretary of State a licence for the manufacture of Bren guns. I have been using the term "Secretary of State"; I mean the Secretary of State for War for Great Britain. Perhaps it would be convenient if I said instead the British government. The British government secured from the patentee a licence to manufacture Bren guns. As consideration for the licence, and this is distinct from the royalties payable, but as consideration for the licence and for the furnishing of drawings, specifications, &c., the British government agreed to pay to the patentee £20,000 within thirty days of the signing of the agreement. That would be on or before the 24th of June, 1935. In addition, £5,000 were to be paid when 14,000 guns had been manufactured; and a further £5,000 when 17,000 guns had been manufactured. That is a straight licence fee for the right to manufacture this gun.

The CHAIRMAN: That is a total of £30,000.

The WITNESS: £30,000. In addition, royalties were to be payable in respect of each gun manufactured. For each gun up to 17,000, £3 was payable. For each gun beyond 17,000 and up to 40,000, £2.15.0 was payable. For each gun beyond 40,000 and up to 60,000, £2. In other words, the royalty is on a diminishing scale as production increases.

For each tripod up to 25,000, 6/- per tripod. The agreement also provided that no royalties were payable on guns or tripods manufactured after October 25, 1949, or on guns exceeding 60,000, or on tripods exceeding 25,000.

That was the agreement between the Czecho-Slovakian patentee and the British government. But that agreement went further. It permitted the British government, in the person of the Secretary of State for War, to grant a sub-licence to any dominion to manufacture guns, and it specifically says: "in a government-owned plant in that dominion." It also provided that any guns manufactured by a dominion would be taken into consideration with any guns manufactured by England in fixing the numbers which regulated the payment of royalties. In other words, if England manufactured 12,000 guns and we manufactured 6,000, that would bring the total to 18,000 manufactured, and the royalties for the first 1,000 after the 17,000 would be on the lower scale.

It made a further provision; that the manufacturing dominion would be responsible directly to the patentee for the payment of royalties, and the British government would not be liable therefor.

It also contained other provisions, such as the certification as to the number of guns, accounting provisions, and so on. I will not labour that. It was the ordinary commercial procedure, I would imagine.

Mr. McGEER: Assurance to the patentee.

The WITNESS: Yes. There was also a provision whereby the dominion could, instead of obtaining a licence from the Secretary of State, make an arrangement direct with the patentee. But that has not been done.

The war office has granted a licence for its requirements to the John Inglis Company. It has sent out a draft licence to the Department of National Defence from the Secretary of State for War to the Minister of National Defence permitting the manufacture here. I will go back for a moment, if I may. The licence restricted manufacture in a government-owned plant. The British

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government in May or June, 1937—I think May—approached the Czecho-Slovakian patentee and asked if they would not extend the rights of the Secretary of State for the manufacture of the gun. In a letter dated 18th June, 1937, the patentee wrote to the war office and granted that extension, thereby empowering the Secretary of State for War to license the dominion to have the Bren gun manufactured in a plant other than a government-owned plant.

Mr. McGEER: That also included the Birmingham Small Arms Plant, did it not?

The WITNESS: I think it did, yes. It was not only restricting the dominion; it permitted the war office as well to have guns manufactured for them.

The CHAIRMAN: It opened the contract?

The WITNESS: Yes; it removed partially the limitations heretofore placed on the British government with regard to its manufacture and in regard to the granting of a licence to a dominion to manufacture.

The CHAIRMAN: Because this is a distinctive and important point, if anybody has any further questions to ask they had better ask them now while the witness is dealing with it.

The WITNESS: It is something distinct from the contract.

The CHAIRMAN: It is something distinct from the contract, yes. Is there any further information that any member wants?

By Mr. MacNeil:

Q. Is there a further provision in clause 1 with regard to keeping the licence in good standing?—A. That has to do with the payments, not only the payments but the returns that under the licence are required to be made to the patentee. If we do not comply with the terms of the licence in the way of making quarterly payments and making the returns as to the number of guns manufactured, then the licence may fall to the ground.

By the Chairman:

Q. Is it not important, particularly in view of the recent development, to bring up this point, that this clause covers the arrangement between the Canadian and the British governments, and the company and the British government.—A. We, as a Canadian government, have nothing to do with the people in Czecho-Slovakia. There have been no dealings, correspondence, direct or indirect, between the Department of National Defence—and I think I am safe in saying the government of Canada—and the Czecho-Slovakian patentee. All dealings and arrangements have been made by the War Office or the British government and the Czecho-Slovakian patentee; and in the working out of the payment of royalties it is quite obvious that our payments will have to be made through the War Office, because they are the report centre, if I may put it that way, of all manufacturing dominions, Australia and Canada and so on.

Q. Are they more than a report centre?—A. They collate the information; they collate the data; the number of guns manufactured, the payment and so on must be collated in some place.

By Mr. McGeer:

Q. The fact is the War Office, the British government, is the licensee?—A. It is the licensee.

Q. The dominion government is a sub-licensee of the British government?—A. That is correct, sir.

Q. And in the sub-licence to the dominion government there is power to manufacture in a plant other than a government plant?—A. That is correct.

Q. But all relations in connection with the patent are between the Canadian government and the British government subject—A. That is only partially correct, sir. The licence is a rather unusual document in that though we are a sub-licencee to the Secretary of State for War, notwithstanding the Secretary of State for War is relieved from any liability to the patentee for royalties.

By the Chairman:

Q. Have you that document?—A. No.

By Mr. MacNeil:

Q. The department pays the licence?—A. Taking the licence in its strict form we would make our payments direct to Czecho-Slovakia, and we would make our returns direct to Czecho-Slovakia, but we have had no dealings with them at all; and in the technical administration of that phase of the transaction we have to make them through England because we do not know at all whether we would fall into the higher or lower or intermediate bracket with regard to the payment of royalties.

By the Chairman:

Q. Who is your licence from?—A. From the Brno company in Brno direct.

Q. Direct to the Canadian government?—A. Direct to the War Office.

Q. That is the point I am trying to clear up. Your licence is with the British War Office?—A. Right.

Q. Then you followed that up by saying that they are only a clearing house?—A. That is what the terms of the licence say. The licence says that—I am paraphrasing it—if the Secretary of State for War licenses an establishment to manufacture guns in the dominion then the manufacturing dominion is responsible to the patentee for the payment of the royalties and the Secretary of State for War would not be liable therefor.

By Mr. Bercovitch:

Q. By the Secretary of State for War you mean the Secretary of State for War in England?—A. As I stated to Mr. MacNeil, the only way it can be administered is this: we must deal through the War Office.

Q. We remit to the War Office?—A. We remit to the War Office.

Q. And the War Office in turn remits to the patentee?—A. In other words, we would not know on what scale our royalties would be paid.

By Mr. MacInnis:

Q. Who is responsible for the payment of the royalties in this case, the manufacturing company or the Canadian government?—A. The Canadian government is responsible as between it and the patentee.

Q. Will the royalties be considered as part of the price paid by the Canadian government to the John Inglis Company?—A. Not necessarily.

Q. Or an addition?—A. I cannot answer that statement authoritatively, Mr. MacInnis. That would be rather something coming from the deputy minister or somebody in control there. I am not aware of whether we would pay the royalty to the John Inglis Company or if they in turn would remit it to the Secretary of State for War. It would seem to be a waste motion there.

By Mr. McGeer:

Q. What Mr. MacInnis is interested in is whether the John Inglis Company would get a percentage of profit on that?—A. No.

Mr. MACINNIS: That is specifically set out in the contract with the John Inglis Company.

Mr. McGEER: I do not think so.

[Colonel R. J. Orde.]

By Mr. MacInnis:

Q. After we have paid the John Inglis Company whatever it would cost in that connection, will the Canadian company then have to pay the royalty to the British War Office?

Mr. SLAGHT: Yes.

The WITNESS: We have to pay the royalty; whether we pay it to the John Inglis Company and they in turn remit it, I am not in a position to state.

By Mr. Homuth:

Q. It is not considered as part of the cost in so far as the manufacturing is concerned.—A. No, it is entirely separate from that.

By Mr. Factor:

Q. What does clause 5 on page 5 mean? Clause 5 says: "The cost referred to in section 4(a) hereof shall consist of the following specific items to the extent that they incurred in the performance of this contract: (a) Royalties or licensing fees paid for the use of any patents or copyrights, . . ." That is part of the cost?—A. No. It says, "Royalties or licensing fees paid for the use of any patents or copyrights, the right to the use of which is not given to the party of the second part under the terms of this agreement . . ."

Q. I quite appreciate that. But is it not an item in the calculation of the cost of the guns?—A. No, not as between ourselves and the company in respect of the royalties paid to the Czecho-Slovakian patentee. It is designed mainly to cover paragraph (a) of section 3, a case where a company may manufacture a special tool which was protected by a patent, or use some drawing not in respect of the gun proper but in respect of the tooling or machinery or gauges required.

By Mr. MacInnis:

Q. Is it not covered in sub-section (3) of section 4?—A. Royalties are excluded from any other items in respect to which the ten per cent profit is calculated.

By Mr. MacNeil:

Q. What is meant by the phrase in clause 1, "the party of the first part undertakes to keep the licence in good standing and to indemnify the party of the second part with respect thereto"?—A. Should there be any failure on our part to comply with the terms of the basic licence, that is in the way of forwarding our returns, and through no fault of the company, we being neglectful or at fault, the company should not suffer for it.

By Mr. Factor:

Q. I frankly confess it is not clear to me as to whether the royalties are included in the price of the gun or not. I quite appreciate the ten per cent profit does not apply to royalties but clause 5 distinctly says: "the cost referred to in section 4 (a) hereof shall consist of the following specific items to the extent that they are incurred in the performance of this contract." Section 4 (a) shows "the sum of all costs, as hereinafter defined, properly incurred in connection with the manufacture of the said Bren gun and spare or component parts." They are all set out in subsections (a), (b), (c), (d), (e), (f) and so on of section 5. Subsection (a) says: "Royalties or licensing fees paid for the use of any patents or copyrights, the right to the use of which—" —A. Would you read the next few words.

By Mr. McGeer:

Q. "—the right to the use of which is not given to the party of the second part." Now, the right to use the patent in Canada is given by the party of the second part so that in clause 3 or subsection (3) of clause 4 and in subsection (a) of clause 5, the royalties of the licence given by the government to the manufacturer are exempt in both clauses.

By Mr. MacNeil:

Q. Do you know whether the terms of the licence provide for circumstances such as have arisen in recent weeks?—A. No.

Q. Whereby the control of the patent may now be in the hands of Germany?—A. No; I can say definitely it makes no provision for that. It is a straight licence without any qualifications whatever.

By Mr. Green:

Q. To sum up, the situation is this: the government pays this royalty to Great Britain, quite apart from the terms of the contract?—A. Oh, quite; that is something entirely independent of the contract.

By Mr. Needham:

Q. It is not calculated in the cost of the gun at all?—A. It goes into what we have to pay for the gun, naturally.

Q. It is not included?—A. Not included in the cost there.

By Mr. Homuth:

Q. In your statement a while ago you said that in the original licence it is provided that the guns were to be manufactured in a government-owned plant. Then, later on the British government got the right to manufacture them in other than a government-owned plant?—A. That is correct.

Q. These negotiations between the government and the patentee were carried on during the period of the negotiations with this company?—A. Well, they were carried on during the period—I speak from memory—April to June, 1937. The British government, I may say, was equally interested. They had the Birmingham small arms to deal with as well and they were prohibited, under the terms of the licence, from having guns made in the Birmingham small arms plant. They were mightily interested in having an extension of the original licence.

By Mr. Green:

Q. They make most of them at the Enfield plant?—A. I understand the bulk are being made there. The Birmingham small arms are making a fair proportion of the components, making all the spare and component parts.

By Hon. Mr. Stirling:

Q. The recent international explosions have not so far affected this licence or contract?—A. No.

Q. The arrangements have had no effect?—A. It does not impair the validity of the licence.

Q. What the British government may do in the way of paying royalties brings Canada in?—A. Canada comes in, naturally, in the process of administration there. The time of royalty payment has not arisen yet, and will not arise for another few months.

By Mr. Green:

Q. Canada pays \$15 for each gun to Great Britain?—A. Remits it there.

Q. Then we pay the Inglis Company for the production?—A. Then we pay the Inglis Company for the production. I would like to qualify that. We remit to Great Britain for transmission.

Q. To Czecho-Slovakia?—A. If that is where Great Britain does remit.
[Colonel R. J. Orde.]

Mr. SLAGHT: I suggest we protect ourselves, in view of the situation of the last few days, with regard to any remittances to Great Britain. I suggest that they withhold the money until they determine under what control it would come if it went to Czecho-Slovakia. Probably they will withhold not only ours but any other payment until they see whether the patentee can get out of the country and receive it in Britain or whether it might get into enemy hands.

Mr. McPHEE: We can take it for granted that that will be done.

Mr. SLAGHT: I should think that the department would wisely administer it and protect us in that way.

The WITNESS: Undoubtedly. As I mentioned a moment ago, Mr. Slaght, we have had no dealings whatever with the patentee. We must, in the ordinary administration of it, deal through the War Office.

By Mr. Green:

Q. It is not paid until the gun is produced, and the guns will not be produced for over a year?—A. No. The payment of royalties will not arise for probably eight or nine months anyway, or a year.

Mr. McPHEE: Let us proceed.

By Mr. MacNeil:

Q. Did the original contract or the contract proposed by the contractor ask for an exclusive licence in Canada?—A. May I put it another way? The original drafts which were prepared merely for purposes of consideration, had an exclusive licence. It provided that he be granted an exclusive licence. At no time was it being considered that the contractor would get an exclusive right; but I will take the committee into my confidence at the moment. It was more important to bargain on other matters than the question of an exclusive licence. As a matter of fact, we were not worried very much whether he was granted an exclusive licence or not because if we wanted to grant a licence to somebody else we could always invoke section 19 of the Patent Act. We left that exclusive licence provision out until the very last because there were more important things to deal with, and when the profit control committee came to deal with the contract in its final form there was no difficulty at all in having the contractor agree to a non-exclusive licence, which we might have experienced earlier in the transaction.

Br. Mr. McGeer:

Q. I think you might give the members of the committee an explanation of section 19.—A. Section 19 says:—

The government of Canada may at any time use any patented invention, paying to the patentee such sum as the commissioner reports to be a reasonable compensation for the use thereof.

That section also gives the right of appeal.

Q. In other words, there is no such thing as the exclusive right of a patent, or inclusive, where the interests of the dominion are concerned?

By Mr. Brooks:

Q. That refers to a patent in Canada?—A. Yes.

By Mr. McGeer:

Q. Or a licensed patent in Canada as well?—A. Actually, there is no Canadian patent of the Bren gun at all.

By Mr. Brooks:

Q. That section refers to a Canadian patent or invention. Would it refer to this patent?—A. If any portion of this article was patented in Canada.

Q. Which it is not?—A. I am not familiar with the details. I understand one or two components are, so the technical officers inform me.

Q. One or two components?—A. Covered by patent. If it were not patented in Canada the question of exclusive or non-exclusive would not arise at all.

By Mr. MacNeil:

Q. May I ask if paragraph (2) of this clause absolutely prohibits all stock transactions?—A. I am not in a position—

By Mr. McGeer:

Q. Are we through with clause 1?

Mr. BROOKS: This has to do with section 1. We have been skipping around from clause 1 of the contract to clause 2 and so forth. I understood we would take all these sections separately and ask questions in that way.

The CHAIRMAN: We have jumped from Clause 6 or 7 back to clause 1. We have to do that because certain clauses refer to others.

Mr. McGEER: Sometimes you cannot avoid that difficulty in order to make an explanatory answer.

The CHAIRMAN: I think what the Colonel is endeavouring to do is to explain clause 1 and answer any questions on subsidiary clauses that have a bearing on clause 1.

The WITNESS: It was to clean up the licence

Mr. GREEN: I think, if I may say so, we should be quite clear on the point that was raised by Mr. Brooks a moment ago and referred to by Mr. McGeer in connection with the licence and section 19 of the Patent Act. I think you might explain to the committee whether the right under section 19 of the Patent Act would apply to an operation in Canada covered by a foreign patent. Is not that your point?

Mr. SLAGHT: They did not get an exclusive licence so the Patent Act does not matter. They have no exclusive licence.

By Mr. Green:

Q. In paragraph 1 there is a provision which states: "Notwithstanding the provisions of this contract, the licence to be granted the party of the second part under the terms of this section shall remain in full force and effect for the duration of the said licence or renewals thereof." Now, under the contract all the guns have to be produced within five years?—A. Six years.

Q. Would that mean that from the end of the six year period to the end of the ten year period that this company would have a licence to manufacture Bren guns for anybody or under any conditions?—A. Under the terms of the licence, certainly, they would have. They would have a licence just like a private manufacturer may have a subsidiary licence to make radios.

Q. They are free at the end of the five year period to manufacture Bren guns as they see fit?—A. As they see fit.

By Mr. MacNeil:

Q. They may make guns at any time for any other buyer?—A. No, not under the terms of the British licence. Under the terms of the British licence they must be made for the government of Canada.

[Colonel R. J. Orde.]

Q. They must be made for the government of Canada in the six year period?—A. In the six year period. The sub-licence which the British government has granted to us relates only to manufacture by Inglis for the government of Canada.

By Mr. Brooks:

Q. Has any other company in Canada a licence?—A. Not that I am aware of.

By Mr. Green:

Q. Why are they given the right to renew the licence for a ten year period when the contract is completed for these guns?—A. For the possible reason that the British government may or may not want to give a subsidiary order. We wanted to leave the way open to them to manufacture here as a second source of supply for any other dominion in the British Commonwealth if the occasion should arise.

By Mr. McGeer:

Q. But there is a restriction on the manufacture of arms in Canada for other than Canadian— —A. Yes, under section 290 of the Customs Act.

Q. Nobody can manufacture under a licence of this kind for general distribution abroad?—A. Oh, no.

Mr. HOMUTH: Without the consent of the department.

Mr. DOUGLAS: They could manufacture but not export.

Mr. McGEER: There would not be much use in manufacturing if they could not export. The suggestion is now being made because this licence has an over-riding clause beyond the period during which these guns are to be manufactured that this country would have the power to manufacture and distribute for the world at large. Of course, that is not so.

The WITNESS: That was never contemplated and it could never happen.

Mr. McGEER: It is not so.

By Mr. MacNeil:

Q. The government has the power to grant an export licence?

Mr. DOUGLAS: It does that.

The WITNESS: That is perfectly true, Mr. MacNeil, but the licence from the Secretary of State for War, the British government, to the Minister of National Defence, limits this licence to the manufacture of guns for the Canadian government and the British government, so that after this contract is over it would be impossible for them to manufacture any guns except for the government of Canada.

By Mr. Factor:

Q. Does not the licence issued by the British government include a provision that these guns can be manufactured only for the British government and the dominions?—A. Yes, by them and for them.

By Mr. Green:

Q. It also states that such licence shall be renewable after the said term of ten years from time to time for a like period or periods by mutual agreement of the parties hereto. There might be a renewal for a period of twenty, thirty or forty years?—A. It requires the agreement of the company and the dominion government, and any right of the dominion government to consent or agree to renewal must be dependent upon the basic licence.

Q. Why do you provide for a longer period than ten years? Why not ten years at most?—A. The reason was that we could not look into the future perhaps as well as we should like to, and there might be the possibility of giving them fresh orders.

By Mr. McLean:

Q. What difference does it make if the last few words were not in there? Does it make any difference at all?—A. Not a particle.

By Mr. McGeer:

Q. There is no obligation, Colonel Orde, to grant that extension?—A. No.

Q. It only provides that if you agree that it is in the interests of Canada that this licence may be renewed, the power would be there if there was nothing in this contract at all?—A. Of course, it would.

Q. So that these words are like a good many more words in a good many contracts; they are purely meaningless.

Mr. GREEN: There are a great many implications to be placed on these words, however, above that which Mr. McGeer has placed on them.

Mr. McGEER: What does it mean? All that it means is that you will mutually agree that you might, at the termination of the contract, renew the contract.

Mr. GREEN: It shows the intention.

Mr. McGEER: There is nothing binding.

Mr. MACNEIL: It deals with the licence.

Mr. BERCOVITCH: It does not even show intention.

Mr. BERTAND: It shows goodwill.

Mr. McGEER: If at the end of ten years a situation arose where it would be to the interest of the government of Canada to have this company carry on, it merely indicates that it is possible for them to do so. There is nothing there that you could enforce.

Mr. McLEAN: All it shows is a fondness for redundancy and words that have no legal effect. They had better be left out.

By Hon. Mr. Strling:

Q. As I understand it, there are two licences, one from the War Office to Canada and one from Canada to the John Inglis Company?—A. No, sir. There are two licences, one from the War Office to the John Inglis Company for their 5,000 guns—

Q. Is that for a ten year period?—A. Well, it is to manufacture 5,000 guns and without any limitation, any period. That is the British government requirement. The licence from the British government to the Minister of National Defence is for the manufacture of 7,000 guns in the Bren gun plant here, without any limitation of time.

By Mr. Brooks:

Q. The British government could grant a licence for the manufacture of guns without reference to the Canadian government at all?—A. Legally, I suppose it could. There is nothing to prevent it in the extension granted by the Czecho-Slovakian patentee.

By Mr. Kennedy:

Q. Is there anything to prevent the export of guns to Great Britain?—A. In Canada?

[Colonel R. J. Orde.]

Q. Suppose the British government allowed a private firm to produce guns, is there anything that the Canadian government could do to stop the export of guns to the British government?—A. Certainly, they could by just invoking section 290 of the Customs Act.

By Mr. Slaght:

Q. As I understand it, any Canadian firm that wanted to go into this business and could persuade the British government to give them a contract, could do it; there is nothing to prevent it so far as this contract is concerned?—A. Nothing at all.

By Mr. McLean:

Q. Does the dominion pay a portion of the licence of £30,000 that was paid by the British government, or is our payment limited to royalties only?—A. That is under negotiation now, sir. We have received a letter in the course of the last few weeks from the British government—not demanding—a very quiet letter, suggesting that possibly we might see our way clear to make a contribution of roughly one-tenth of the £30,000.

Q. There is no definite agreement in that regard at all?—A. No, it is purely a suggestion in a very mild way, nothing in the shape of a demand at all.

By Mr. MacNeil:

Q. May I now ask a question with regard to the second paragraph of clause 5? Does that clause absolutely prohibit any form of stock transaction by the contractor?—A. That is something, Mr. MacNeil, I would suggest that you ask Mr. Elliott when he comes up for an examination, because it was his committee that drafted it. Any explanation I give would be purely hearsay. I can give you my interpretation of it.

By Mr. Green:

Q. Would that paragraph cover the sale of shares by shareholders as distinct from the company?—A. Mr. Elliott is in a better position to answer that than I am. Now, I do not want to repeat what Mr. Elliott has said.

By Mr. Brown:

Q. What was that business referred to in there?—A. That is the same clause. It was Mr. Elliott's progeny; he had that inserted.

By Mr. MacNeil:

Q. Will you explain the intention in regard to the installation of Enfield rifles, that part of clause 3 which refers to the installation of machinery.—A. Yes. That was intended to be something imposed on the company; in their layout and in their method of installation that should we wish for some reason to switch—when the contract is terminated—to Enfield rifles or pistols or small arms, the manufacturing plant would be capable of being so utilised without putting us to a great deal of expense in shifting it all around again and revamping it.

By Mr. McGeer:

Q. As I understand the clause, Colonel Orde, the plant was to be interchangeable to manufacture 6,000 Bren guns a year, or 30,000 Lee Enfield rifles, and it was to be an interchangeable operation?—A. Conditionally upon their having the tooling and the jigs, which are different for a Bren gun from those necessary to manufacture the Enfield rifle.

Q. There was no contract or arrangement to manufacture the Lee Enfield rifle; there is no contract or—A. Oh, no, not at all. This clause was intended to inure to the advantage of the crown because the contractor might, to suit his own convenience, have his plant set up in a certain way so that it would be a rather expensive process turning it over to the manufacture of pistols and Enfield rifles.

By Mr. Brooks:

Q. Does not that very clause presuppose the granting of future contracts in these small arms to the John Inglis Company and not to a competitor?—A. No, far from it. Nothing like that, I can assure you, nothing like that in the minds of the officers at all. It was intended to be a safeguard for the department.

Q. It is a reasonable interpretation.

Mr. McLEAN: That is a matter of opinion.

The WITNESS: Your opinion is as good as mine.

By Mr. Green:

Q. What 30,000 rifles? Where does that figure come in?—A. That was purely in the discussion with the contractor, with the technical officers, who said the same amount of time and labour and so on is required for 30,000 Enfield rifles as for 6,000 Bren guns. In other words, 30,000 Enfield rifles can, with the same machinery and with the proper tooling, of course, be turned out in the same time as 6,000 Bren guns, but through proper tooling.

By Mr. MacNeil:

Q. Does not that commit the government to an additional investment in that respect?—A. No.

By Mr. McLean:

Q. All the machinery installed there would be installed in such a manner that it could be used for Enfields, and not that Enfield machinery would have to be installed after?—A. No.

Q. It would not entail any more cost?—A. On that point, the contractor must purchase certain tools, jigs and dies. There is a restriction on him that he must always have in his mind the idea that we may want to manufacture Enfield rifles at some time and as much of his machinery and tooling as possible must be capable of manufacturing these. In other words, he must not go full out and buy something that is capable of manufacturing Bren guns, but nothing else but Bren guns.

By Mr. Brooks:

Q. Is this a section of the British contract?—A. No, it is not in the British contract because in the British contract they do not supply any machinery at all.

Q. They are paying one-third.—A. They are paying one-third. In our contract we will supply or the contractor will supply the machinery and dies and so on, and it all comes back to us.

Mr. McGEER: In addition to that the British government have, of course, the equipment and the establishment for the production of Enfield rifles which we have not.

The WITNESS: At the Royal Small Arms Factory, Enfield.

Mr. McGEER: This contract was drawn having regard to a long term contract as well as having regard to the immediate situation.

Mr. BROOKS: The John Inglis Company was to be the manufacturer.

[Colonel R. J. Orde.]

Mr. McGEER: I think that is a point of controversy. What I am suggesting is, the government owns all this machinery at the termination of this contract?

The WITNESS: There is no doubt about that, it does.

By Mr. McGeer:

Q. Unless the government wishes to take over that equipment at the end of this contract, they will have a plant that will be capable of being converted at comparatively small cost to the production of Enfield rifles?—A. Or any other small arms.

Q. And that was the purpose of the contract being drawn in this way?—A. That was the whole purpose of that provision.

Q. While some may say that it was done wholly for the purpose of building up the John Inglis Company, the officials of the government had in mind the advantages that would accrue to the crown if it were done in this way in the event of their taking over the plant, or in the event of their desire to get Enfield rifles in an emergency?

By Mr. Green:

Q. They envisaged the possibility...

Mr. McGEER: Would you let him answer my question please?

By Mr. McGeer:

Q. Is that correct?—A. That is absolutely correct so far as my dealings were concerned.

By Mr. Green:

Q. And envisaging the possibility of the Inglis company manufacturing these rifles?—A. I cannot answer that at all; I have no information there at all.

Q. You do not know what the plan was for the future at all?—A. No, or anything else. All I knew, sir, was I was instructed to make provision in the contract whereby the machinery would be capable of being used for a certain purpose.

By Mr. Brooks:

Q. By whom were you instructed?—A. In the discussion I had with the master general of the ordnance and the deputy minister. These things did not all happen in twenty-four hours. They were discussions that ran over many, many months, many, many days.

By Mr. MacInnis:

Q. Did the John Inglis Company submit a draft contract to the department on which this contract was based?—A. No—I am sorry, they did put in a draft contract, a draft of contract with the proposal that came in in October of 1937.

Q. Was this clause 3 in the draft contract submitted by the John Inglis Company?—A. I am not able to speak there...

By Mr. McLean:

Q. Was this draft contract submitted by the John Inglis Company when this contract was passed?—A. No, sir; the draft contract submitted by the Inglis company was taken from the contract, an aeroplane contract, a similar contract to this contract which had been entered into by the department earlier in the year. We had three or four of these cost-plus things with the Boeing Company and the National Steel Car.

Q. I just want to make it clear. You stated in your answer that this contract was based on a draft contract submitted by the Inglis company?—A. I was going to amplify my answer to make it perfectly clear. The draft submitted by the Inglis company was almost verbatim, word for word, with one of these aeroplane cost-plus contracts.

By Mr. McGeer:

Q. Did the draft submitted by the Inglis company contemplate the manufacture of ten- or twelve-thousand guns?—A. Ten thousand.

Q. For the Canadian government, which in turn was to supply the War Office requirements?—A. Quite.

Q. That contract was put aside and a new contract developed on the basis of the British War Office contract with the Inglis company for their share and the Canadian government—A. The contract submitted, which was called appraisal No. 2—I think it was mentioned at the Davis commission—was entirely unsuitable and it was thrown aside. We ignored it entirely and this draft was—so far as the department was concerned in the preparation of this draft, we had recourse to our own draft in this aeroplane cost-plus contract. We ignored entirely the document, the so-called draft submitted by the John Inglis Company as one of their proposals.

By Mr. Homuth:

Q. We have this picture, the government of Canada is equipping an arsenal in Toronto with government money, the profit from which work done in the factory will accrue to private individuals. Is not that the picture?—A. That is an expression of opinion.

Q. Is not that the picture? The government is financing the equipment of the factory?—A. Yes, there is no doubt about that.

Q. With government money. They are financing the whole thing with government money. Then, the profits accrue to private individuals.

MR. SLAGHT: That is not correct.

MR. BERCOVITCH: There may be no profit.

MR. SLAGHT: The British government are financing that to the extent of one-third.

MR. HOMUTH: Quite.

MR. SLAGHT: The dominion government two-thirds and the Inglis company are financing entirely the buildings, land and that aspect of it.

By Mr. Homuth:

Q. I am dealing with the Canadian contract. So far as the Canadian contract is concerned—the British government is taking care of their one-third—we are equipping with government money a privately owned plant, the profits from which will accrue to private individuals.

MR. SLAGHT: That is not strictly accurate, because the money to equip that privately owned plant, so far as the machinery is concerned, and that machinery is used for the making of guns for the Canadian government, is being set up one-third by the British government—

MR. HOMUTH: I am not worrying about the British government. They are putting up their money for the making of the guns. Let Colonel Orde answer. The English party is out of the picture so far as my question is concerned. The Canadian government is financing the equipment of the Bren gun plant, where they are making the Bren gun?

THE WITNESS: The Canadian government is paying a portion of the cost of the equipment.

[Colonel R. J. Orde]

Mr. BERCOVITCH: And the equipment belongs to the Canadian government.

Mr. HOMUTH: And the profits on the work will accrue to private individuals.

Mr. GOLDING: If there is a profit.

The WITNESS: Yes.

Mr. HOMUTH: There can't help but be a profit.

Mr. BERCOVITCH: There may be rejects, then there will be a loss.

Mr. HOMUTH: You never heard of rejects of any great value in a business like that, and they are all taken into the cost.

Mr. BROWN: They were taken care of in the cost in the making of shells.

Mr. BERCOVITCH: I do not know about the making of shells.

Mr. McLEAN: The word "profit" is not the correct word at all. It is an allowance that is being made, similar to an indemnity.

The WITNESS: They will use what in other words would be the profit allowance or compensation in the expenses they have to meet in the way of rejects and faulty work.

By Mr. Brown:

Q. They are allowed a fairly safe margin?—A. No. I would like to emphasize that. You will find that in section 11 of the contract.

Mr. GREEN: It is 1 o'clock, Mr. Chairman.

The WITNESS: The process manuals and the factory specifications which will be used are, I am informed by our officers, the War Office ones.

By Mr. Brown:

Q. You misunderstood me; a safe margin so far as a financial loss is concerned?—A. I won't answer that because I had nothing to do with the negotiations of the terms at all.

By Mr. McGeer:

Q. May I suggest in the course of these discussions I take it that exhibit 10, —probably you will remember that document which dealt with the sources of supply and the methods of— —A. Yes.

Q. —development. It deals with one supply from the War Office, the second supply from Czecho-Slovakia and the third from private industry and the fourth Canadian production in (a) a government factory with government operation, (b) private enterprise and (c) government ownership with private operation?—A. Yes, I remember that.

Q. Am I correct in saying that none of these various sources of supply are taken into consideration in this proposal for production, but that it is the system designated as "C", government ownership with private operation and government control of profits, and this contract contemplates putting it into effect?—A. In general, probably that is what it is.

Mr. BROOKS: You cannot call the John Inglis plant a government owned plant.

Mr. McGEER: No, but what you have here is a measure of government ownership with private operation, with government control of profits, with the profits limited to a reasonable compensation for the money invested by the private organization and with administrative services. That is correct?

The WITNESS: That is correct.

Mr. HOMUTH: Private company's money is questionable.

Mr. McGEER: Whether or not that profit is a fair amount, or unfair, might be a matter of issue, but what the contract contemplates putting into effect is

not an issue at all, because it does do this very thing, part government ownership, part private ownership, private administration, government supervision and government control of profits.

Mr. BERTRAND: A partnership.

The WITNESS: One step further in amplification of Mr. McGeer's statement; actually in principle it would be as if we had already in our stock there every bit of machinery and every bit of tooling that was required for the production of these guns and that we handed it over to somebody else and said, "Here, you make the guns and we will give you an allowance for your services."

Mr. McGEER: But in addition to that the company are supplying part of the machinery and the plant.

Mr. HOMUTH: No, none of the machinery.

Mr. McGEER: Yes, because in actual operation, part of the John Inglis machinery and the machine shop is now in use making dies and tools. It is five minutes after one.

The CHAIRMAN: I should like to make two or three remarks to see if we cannot get on with this job in accordance with everybody's opinion. We cannot very well sit on Thursday morning, but I should like the committee to decide whether they wish to adjourn until this afternoon at 4 o'clock and continue then, or whether we should adjourn until to-morrow morning at 11 o'clock.

Mr. McGEER: I think we ought to get on this afternoon.

Mr. GREEN: There are only a few of us in the house. We cannot have eight or nine members here in the afternoon and conduct the business in the house at the same time. There is no need to force this thing through, and therefore I hope the motion will not be put.

The CHAIRMAN: I might suggest to my honourable friend that I am simply trying to get an expression of opinion. I appreciate what he says. He would not permit me to continue, but I appreciate what he says and I see the logic in it. As far as I am concerned, I want to concur in it. If the committee agrees with the objection of the honourable member, we can sit tomorrow morning at 11 o'clock.

Mr. McGEER: Tomorrow morning at what time?

The CHAIRMAN: 11 o'clock.

Mr. McGEER: Why wait until 11 o'clock?

Mr. McLEAN: 11 o'clock is the usual time. We have to attend to correspondence and other matters.

The CHAIRMAN: I take it, then, that the committee does not wish to sit this afternoon, so we will adjourn until tomorrow morning at 11 o'clock.

The next question is whether we shall continue with the two witnesses we have heard this morning?

Mr. McLEAN: Agreed.

The CHAIRMAN: The third point is that I should like the sub-committee to meet this afternoon for not more than ten minutes in this room at 4 o'clock. I have one point I want to bring up in connection with a resolution tomorrow morning, if the sub-committee can give me ten minutes this afternoon.

Mr. HOMUTH: Before the committee rises, Mr. Chairman, I think that at the last meeting Mr. Douglas asked for the production of accounts and payment of everything in connection with any money that has been paid out to date relative to the Bren gun contract.

The CHAIRMAN: It is in connection with procuring that information that I wanted the sub-committee to meet this afternoon for ten minutes.

(At 1.05 p.m. the committee adjourned to meet again at 11 a.m. Wednesday, March 22, 1939.)

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Canada. Public Account, Standing Committee

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 2



WEDNESDAY, MARCH 22, 1939

WITNESS:

Colonel R. J. Orde, Judge-Advocate-General, Department of National
Defence.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, March 22, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present:—Messrs. Ahearn, Anderson, Barry, Bercovitch, Black (*Chateauguay-Huntingdon*), Blanchette, Bothwell, Brooks, Brown, Douglas (*Weyburn*), Dupuis, Factor, Ferland, Fleming, Fournier (*Maisonneuve-Rosemount*), Francoeur, Fraser, Golding, Grant, Green, Héon, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Needham, Patterson, Purdy, Rickard, Slaght, Stewart, Stirling, Taylor (*Norfolk*), Thauvette, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

The Chairman presented a report from the sub-committee on agenda recommending:—

1. That Mr. Allan J. Fraser be employed by the Committee to prepare a subject index of the evidence heard before, and the exhibits filed with, the Royal Commission on the Bren Machine Gun Contract and to render such other special clerical assistance as may be required, at a rate not to exceed \$20 per diem, commencing Wednesday, March 22, 1939.

2. That the clerk be instructed to obtain certain information requested by Mr. Douglas in respect to machinery installed at the John Inglis Company plant and the cost to the Dominion Government.

On motion of Mr. Bercovitch:

Resolved,—That the report of the sub-committee on agenda be concurred in. Examination of Colonel Orde was continued.

At the suggestion of Mr. Green, it was ordered that the clerk procure a copy of "Schedule 1" referred to in clause 2 of the Bren machine gun contract.

The Chairman informed the Committee that copies of the exhibits filed with the Royal Commission on the Bren machine gun contract were available to members of the committee, either for inspection in Room 504 or, on signed requisition, from the clerk.

The Committee adjourned until Tuesday, March 28, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 429,

WEDNESDAY, March 22, 1939.

The Standing Committee on Public Accounts met at 11 o'clock. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, will you kindly come to order. Before calling on Colonel Orde this morning, I shall just read this recommendation of the sub-committee:—

The sub-committee on agenda recommends:

1. That Mr. Allan J. Fraser be employed by the committee to prepare a subject index of the evidence heard before, and the exhibits filed with, the Royal Commission on the Bren Machine Gun Contract and to render such other special clerical assistance as may be required, at a rate not to exceed \$20 per diem, commencing Wednesday, March 22, 1939.

2. That the clerk be instructed to obtain certain information requested by Mr. Douglas in respect to machinery installed at the John Inglis Company plant and the cost to the Dominion government.

I might mention, just in order to eliminate any doubt in anybody's mind, that this chap is no relative of mine.

Mr. BERCOVITCH: I move the adoption of that report, Mr. Chairman.

The CHAIRMAN: It is moved by Mr. Bercovitch that the report of the sub-committee on agenda be concurred in. Is it your pleasure, gentlemen?

Some hon. MEMBERS: Carried.

Mr. HOMUTH: Mr. Chairman, just before calling that motion "passed," may I say a word? Yesterday at our meeting a question was raised as to the various costs, the moneys that have been paid or the moneys that are owing in connection with this Inglis plant and the whole contract. I understand you are going to get a statement. In your statement a moment ago you just mentioned machinery. What I had reference to was, for instance, on page 3, section 2—

The CHAIRMAN: Will the hon. member permit me to interrupt him for a minute?

Mr. HOMUTH: Yes.

The CHAIRMAN: I simply mentioned it in reading this sub-committee's agenda recommendation. The matter was mentioned by Mr. Douglas. If you will permit me, I will deal with yours, if you like.

Mr. HOMUTH: No. What I have reference to is page 3, section 1, with regard to the expenditure of \$20,000.

Mr. BERCOVITCH: What are you reading from? Are you reading from the contract?

Mr. HOMUTH: From the contract.

The CHAIRMAN: What is that?

Mr. HOMUTH: Page 3, section 1, the clause dealing with \$20,000 preliminary expenses. My idea was that when we get a list of the various expenditures in connection with this contract, all this should be included in the statement.

Mr. DOUGLAS: It is included.

The CHAIRMAN: Just by way of explanation, I might say that yesterday, after the meeting, we requested the following information—the hon. member for Winnipeg South can check me on this:—

1. Total amount expended by the government for machinery to date.
2. Value of machinery installed and not yet paid for by the government.
3. Value of machinery approved for purchase and not yet installed.
4. Total amount spent and committed, fiscal years 1938-1939 and 1939-1940.
5. All expenses incurred, other than for machinery, to date.

Mr. HOMUTH: That is right.

The CHAIRMAN: I do not think we will have that information until next week.

Mr. BROWN: Would it be possible to add to that a question as to where the machinery was bought?

Mr. HOMUTH: It will all be on the vouchers.

Mr. BROWN: Not necessarily.

The CHAIRMAN: We might include that in our request. We can add that to our request. I do not see why we should not be able to get that. I think that covers both Mr. Douglas and Mr. Homuth. Before the end of the meeting I will refer to what I have in mind about submitting that.

Gentlemen, Colonel Orde is here to proceed with his evidence, and Mr. Elliott is on his way over. Are you ready to proceed now?

Some Hon. MEMBERS: Yes.

COLONEL R. J. ORDE, recalled.

By the Chairman:

Q. Will you just carry on, Colonel Orde?—A. Mr. Chairman and gentlemen, at the conclusion of yesterday's sitting we had reached section 3 (a), the last questions being asked having to do with the making of machinery and tools that are capable of producing Enfield rifles.

Q. That is at page what?—A. That is page 2 of the contract. As I stated yesterday, I do not think there is any necessity of going over again the detailed analysis that Mr. Elliott gave. The only matters that might possibly be amplified are these. There was a statement made by Mr. Elliott and Mr. McGeer with regard to the itemized list of costs in section 5 of the contract all requiring the Crown's approval.

By Mr. Green:

Q. Before you get on to No. 5, I wonder if I might ask one question with regard to No. 2. It refers there to Bren guns as defined in schedule 1, and we have not got any schedule to this contract.—A. I am very glad you mentioned that. I was coming to that as part of the schedule, but I might as well clear that up now. I am dealing with the schedules and the exhibits. We might clear that point up.

Q. There is no schedule 1 in these papers.

By the Chairman:

Q. What are you referring to when you refer to schedule 1?—A. You will find that in section 2 on page 2 of the contract.

Q. Is that what you are referring to, Mr. Green?

[Colonel R. J. Orde.]

Mr. GREEN: Yes. It is referred to in another paragraph later on.

The WITNESS: Yes. It is referred to in paragraph 4 as well, in section 4.

The CHAIRMAN: Where is schedule 1 attached?

Mr. FACTOR: Exhibit "B" page 20. It says, "This is exhibit "B" referred to in section 2 of the attached agreement. . . ." That is on page 20 of the contract.

Mr. GREEN: That is exhibit "B"; the other is schedule 1.

Mr. FACTOR: Schedule 1 is made exhibit "B".

The WITNESS: No.

Mr. GREEN: No, they are different.

By the Chairman:

Q. Where is your schedule 1?—A. I do not see it attached to the multi-graphed copy that is submitted to the committee. May I explain that? Possibly it would clear the matter up for the whole committee if I were to explain the thing. I have here an exact facsimile of the contract. In fact, it is one of the multigraphed copies of the contract that was signed. At the time that the contract was signed by the parties, there was not available, either at the war office or here in Canada, what is known as the war office working plan or drawing number. All components in the gun are identified by what is known as a war office or a plan number. For example, it would be DD so-and-so, EE458 and so on. The war office had not completed the detailed specifications. They knew what was going to be in the gun, of course, but did not have what you might call the actual working drawings and process or manufacturing specifications of the gun. And there was attached to the contract a series of appendices, one known as schedule 1 and the other four known as A, B, C and D. All of these were symbolic. There was complete agreement between the contractor and the department, and complete agreement between the War Office and the contractor that when these designations and the actual blue prints and the specification numbers were arrived at they would be affixed to the contract in lieu of these symbolic exhibits and schedules which were attached at the time it was signed. The result is that there is now being used and acted upon as schedule 1—this was the schedule 1 (exhibiting photostat) if you can make head or tail of it; this is what was attached to the signed instrument, it is a photostat of a photostat. It is merely the Bren gun. That is all it is.

By Mr. Homuth:

Q. Then do you mean to say when the contract was signed all the various component parts of the gun and so on were not indicated, that there were no drawings or specifications with regard to them?—A. Oh yes, there were drawings and specifications; everybody, the department and the War Office and the contractor knew what was going into the gun but they had not been—what shall I say—plotted out. It is rather hard to describe it, and given what we call in the service a serial number. That was really what it amounted to.

By Mr. Bercovitch:

Q. But all the information was there?—A. The information was there, but the military machine at times grinds rather slowly and they had not allotted these numbers which would serve for complete identifications.

By Mr. McLean:

Q. Was that for the purpose of secrecy or because they had not got around to it?—A. My guess is as good as yours there, sir. What I imagine, sir, is their draftsmen had not got down to it and they had not given the numbers—DE4, DE5, DE6, DE7, DE8 and so on.

By Mr. McGeer:

Q. As a matter of fact was there not another feature to it; they were still improving this gun, and had not yet decided the form it was going to take?—A. As to that, Mr. McGeer, the evidence I am giving now is hearsay so far as I am concerned.

Mr. McLEAN: I submit, Mr. Chairman, that we should not listen to hearsay.

The CHAIRMAN: I think, Mr. McLean, perhaps we can clear it up this way; I rather think that the witness is going beyond the scope of what the committee really requires from him. You are asking a legal man for mechanical details.

Mr. GREEN: Apparently there is no dispute about it.

Mr. BERCOVITCH: It is only a question of whether they had the number or did not have the number at that time. That information should be available and I think that is all we are interested in.

Mr. FACTOR: Could we get a copy of schedule No. 1?

The CHAIRMAN: I wonder, Mr. Green, if it would clear up your point if I were to ask a question:

By the Chairman:

Q. At the time to which you are referring did you have one or two Bren guns in Canada?—A. We had at least two, and I think we had eight.

Q. You had one in your department?—A. We had one.

The CHAIRMAN: Would that clear it up at all, Mr. Green?

Mr. GREEN: Might we have a copy of schedule 1 now?

The CHAIRMAN: Yes, I think we can get you a copy of the schedule.

By Mr. McGeer:

Q. In any event the man who knows all the details about that is Mr. Jolley?—A. Mr. Jolley, or Colonel Dewar.

Mr. HOMUTH: The reason for my question was that I understood Colonel Orde to say they did not know the details. That has cleared it up.

The CHAIRMAN: I quite see your question, and I can quite see the Colonel's dilemma. I think everybody is satisfied.

Mr. McGEER: I think from Mr. Jolley's statement when he explained the whole gun to us in Toronto the other day he indicated the changes that were made by the British War Office and the Enfield plant in the Czecho-Slovakian gun which improved it substantially, and that the gun that was finally settled upon by the British War Office was the gun that we were going to make.

Mr. HOMUTH: But that was long before the contract.

The WITNESS: That was long before the contract. There were two phases to it—and I can speak from my own knowledge—there were what is known as the general specifications—and Mr. Homuth will appreciate this—and there is what is known as the process manual or the factory specifications, that is, the details. We knew it all but it had not been worked out in detail. It was purely a clerical operation that was going on.

The CHAIRMAN: Colonel Orde, I wonder, with the permission of the committee, could we focus your evidence more directly on the contract, particularly in view of the fact that you are the one who drew it up, or you were instrumental in having it drawn, and you would have intimate knowledge with respect to it.

The WITNESS: I would prefer that.

[Colonel R. J. Orde.]

Mr. BERCOVITCH: The colonel could do that if he is not interrupted.

The CHAIRMAN: Of course, we cannot stop interruptions.

Mr. BERCOVITCH: I am not suggesting that he should not be, from time to time.

The CHAIRMAN: What I am trying to guard against is the colonel being asked something that he does not know anything about.

Mr. BERCOVITCH: He will tell us that.

Mr. McGEER: He seems to be able to take care of himself, Mr. Chairman; and being the counsel, the legal adviser to the department, I think it is quite likely that he knows a little bit more about the substance of these contracts than the mere legal phrases and terms which embrace what is wanted.

The WITNESS: I was forced to know something about the mechanics of the making of a gun.

The CHAIRMAN: Go ahead.

The WITNESS: Now that in general terms illustrates what the principle was in connection with the exhibits and the schedules; can we dismiss that now, Mr. Chairman?

The CHAIRMAN: Unless some of the members have some questions which they wish to direct to that section of the contract.

Some Hon. MEMBERS: Go ahead.

The WITNESS: I must confess I am rather at a loss what to deal with next, sir. As I said, Mr. Elliott analysed the contract yesterday. I made some notes, and Mr. Elliott and Mr. McGeer mentioned several items in respect to which cost was required.

By Mr. Green:

Q. Before we go to that, yesterday we were dealing with section 3-A. I would like to ask Colonel Orde about that part of the section which apparently provides that either the government or the contractor can procure or manufacture machinery, and so on. Now, just what is the intention there? I understood from what we were told on Saturday at the plant, that the government was buying the machinery?—A. The government is buying all the machinery.

Q. That is, buying it direct?—A. Buying it direct; by the same token, the contractor or the company is procuring the tools and small articles wherewith to make the gun, but they are using the machinery.

By Mr. Brown:

Q. The picture is this, that the government is buying the machinery and the contractor is buying the tools?—A. With our concurrence in each case.

Q. The machinery is being bought without interference with the contractor?—A. He has to concur in the machinery. It would be unfair to the contractor if we said you will use a Lambert lathe when his need is not for that particular type of machine for the work he has to do, work which a Pratt-Whitney apparatus is perhaps better suited to perform. There must be some measure of fair play on both sides there.

By Mr. MacNeil:

Q. Who actually places the order for the machinery?—A. The Department of National Defence.

By Mr. Brown:

Q. Would you know if the government was buying new machinery from the company itself?—A. I cannot speak on that. That is a matter for one of the technical officers—Colonel Dewar or the deputy minister.

By Mr. Green:

Q. Where does the Ross rifle equipment fit into that picture; is that part of the machinery being supplied by the government?—A. That is part of the machinery being supplied by the government. The Ross rifle machinery was in storage at Valcartier and was taken up to Toronto. It was all in grease and in fairly good shape. It was taken up there and degreased and put into operation.

By Mr. MacNeil:

Q. During the installation period the company, as I understand it, was proceeding with the manufacture of certain tools and gauges, possibly dies and jigs?—A. I know that they are making certain tools and jigs, but I cannot tell you how far they are going.

Mr. FACTOR: Mr. Chairman, might I suggest that these questions really ought to be directed to the technical officers of the department rather than to Colonel Orde. As I understand it, Colonel Orde is the one who prepared this contract. Can we not direct our questions and his evidence to the substance of the contract from the legal standpoint, rather than the technical details?

The CHAIRMAN: That is what I suggested.

By Mr. Bercovitch:

Q. Am I right in saying these proposals were made by the John Inglis Company or by Major Hahn, as to the form which this contract was to take? These proposals were submitted to Mr. Jolley to begin with, is that right? That is how it started?—A. Yes, to Jolley.

Q. And Mr. Jolly made a report to the interdepartmental committee?—A. No, no; he would make a report to his chief, the master general of the ordnance.

Q. Very well, and the master general of the ordnance in turn would make a report to the interdepartmental committee?—A. To the deputy minister.

Q. And the departmental committee appointed a sub-committee to study those proposals?—A. That is my understanding.

Q. And the sub-committee in turn reported to the full committee?—A. I think that is right.

Q. Who in turn again referred it to the sub-committee?—A. I was not a member of the committee; I do not know what went on there at all. I was not a party to it.

Q. Well, the record shows that?—A. The record shows that.

By Mr. McGeer:

Q. As a matter of fact, the course of this contract could be stated thus: It started with the first proposal in the report which Major Hahn made to a pretty full committee of the Department of National Defence headed by the ordnance department, General Clyde Caldwell?—A. Are you talking of the one that came in towards the end of 1936?

Q. I am just following up what Mr. Bercovitch stated, to get the course of the contract. And in that report which he made on his return from London on December 6, I think it was— —A. 1936.

Q. 1936?—A. Yes.

Q. There was a general review of three possible proposals for the production of Bren guns in Canada?—A. No; there were two proposals, known as Proposal A and Proposal B at that time.

Q. Yes, I quite agree; but I understood there were Proposals A, B and C.—A. That came along in October of 1937.

[Colonel R. J. Orde.]

Q. In any event, there were two; then those were considered by the technical officers of the department, I think Dewar and Jolley?—A. That is right, sir.

Q. I have gone through the reports. Very voluminous reports were made on these proposals, and then from time to time the matter of the details was considered by the ordnance department and reports were made from time to time to the department?

Mr. HOMUTH: Mr. Chairman, I object to Mr. McGeer's system of questioning. He is telling the story and asking the witness to repeat it. Let the witness tell his story. They may have opportunities of getting parts of this story and we may not have the same opportunity.

Mr. BERCOVITCH: You have the same opportunity that we have, if you want to study the record.

By Mr. MacNeil:

Q. You were consulted with regard to proposals A and B prior to the meetings of the interdepartmental committee?—A. No, Mr. MacNeil; my first connection with the Bren gun was on the 19th of March, 1936.

Q. 1936?—A. 1936, when the licence that I mentioned yesterday came out to Canada and I dealt with the licence. No question had arisen or no consideration had been given to any contract. We did not even know of the John Inglis Company at that time. My next acquaintance with the Bren gun was on the 19th of November, 1937.

By Mr. Bercovitch:

Q. Was that proposal B?—A. It was following a proposal made by Hahn, I think, in October, 1937. That was after he had been in England in the summer of 1937, at the same time my deputy minister and minister had been over there at the coronation and the imperial conference. The matter really became a live issue, and action was being taken in the autumn, as I say, in November of 1937, and from that time until the contract was signed we were working continuously on it.

By Mr. MacNeil:

Q. At that time you had knowledge of proposals A and B?—A. I never saw the proposals that were made in 1936. As a matter of fact, I think to all intents and purposes those were scrapped and put in the discard and a new set-up was suggested.

Q. Have you any knowledge of when these proposals were first referred to the interdepartmental committee?—A. I was not a member, but I do not think proposals A and B—the record of the royal commission shows that—I do not think proposals A and B were referred to the committee at all. Those were the ones made in 1936.

Q. Were you admitted to the proceedings of the interdepartmental committee when they did consider the proposals and the draft contract?—A. Admitted? What do you mean?

Q. Were you present during the proceedings?—A. No, no. I would attend there perhaps for ten or fifteen minutes if they wanted some information or to suggest the form that a clause should take, or something like that. But apart from that—

By the Chairman:

Q. You simply attended in a legal capacity?—A. In a legal capacity.

By Mr. MacNeil:

Q. With regard to clause 3, subsection *b*, I understand that Colonel Orde has stated that the company gets full reimbursement for the material and labour costs in the manufacture of gauges, dies and tools made on the company's premises. Does that full reimbursement continue through the production period, or will they not be required to continue manufacturing dies and gauges?—A. Only to the extent of replacement. If you look at section 5 (*g2*), which you will find on page 7 of your copy, Mr. MacNeil, you will see there that during the production period the only machinery or tooling that they have to manufacture is of the perishable type; that is, tools, gauges, and so on, that wear out in the course of the production of the guns.

Q. Does that manufacture come under separate divisions of the contract?—A. Yes; under section 5 (*g2*). That is part of the cost of production as distinct from the costs incurred in the preparatory period.

Some Hon. MEMBER: That is on page 9, is it not?

The WITNESS: I am referring to the numbers in the middle of the page.

By Mr. Green:

Q. Mr. Chairman, dealing with section 3*e*, at the top of page 3, that provides that the compensation to the company shall be two-thirds of certain costs, and Mr. Elliott told us yesterday that the other one-third is paid by Great Britain?—A. That is correct.

Q. Why is that not seven-twelfths and five-twelfths?—A. For the reason that we originally suggested to the war office that the proportionate share all through would be five-twelfths for the war office and seven-twelfths for us; and the war office drove rather a hard bargain. They said, "that would be fair if we were going to own the machinery, but as you are owning the machinery we think it is only right you should pay a little bit more in respect of the preparatory period."

Q. No; that two-thirds and one-third goes right through and applies to the production period.—A. No; the apportionment there in the production period is that we only pay the costs of the manufacture of the 7,000 guns. In the working out of the maximum over-riding profit, it is not worked out on a straight five-twelfth and seven-twelfth basis. For the preparatory period there was an arbitrary sum which the war office, according to its own practice, considered as being reasonable compensation; and they suggested that \$75,000 be the estimated profit or compensation or allowance, whatever you wish to call it, in respect of the preparatory period.

Q. That is on 12,000 guns?—A. For 12,000 guns.

Q. The total profit would be \$75,000?—A. \$75,000. And they said, "We do not think that in respect of that period, and in respect of the cost of the machinery, a $\frac{7}{12}$ ths and a $\frac{5}{12}$ ths ratio is a fair one, because you, Canada, are owning the machinery." So it was purely a matter of bargaining and negotiating, and the two governments agreed that in respect of cost of machinery and in respect of the preparatory period, the apportionment of costs would be $\frac{1}{3}$ rd and $\frac{2}{3}$ rds. It was a pure matter of bargaining between the two governments.

Q. The idea of total profit in this first stage of \$75,000 was dropped.—A. Oh, yes, it was dropped there, but it was used in the calculation for the preparatory period. Whatever may be the profit there, the ratio $\frac{1}{3}$ rd and $\frac{2}{3}$ rds was taken; and in respect of the production period the ratio of $\frac{5}{12}$ ths and $\frac{7}{12}$ ths was taken. That is how the two amounts of \$267,000 and \$183,000 in our contract and in the British contract respectively are made up.

By Mr. Slaght:

Q. How in the world did Canada ever persuade Britain to pay $\frac{1}{3}$ rd of the cost and let us own it all? We got away the best of it, did we not, Colonel [Colonel R. J. Orde.]

Orde?—A. The bargain was extraordinarily good and the war office has been extremely generous. Even now, as I mentioned yesterday, the £30,000 payable in respect of the licence fees, apart from royalties, they are only asking us to pay $\frac{1}{10}$ th.

Q. We are not obligated under this contract to pay one cent?—A. No. The war office has come out and given us something on a silver platter.

Mr. BROWN: They wanted the gun at any price.

Mr. HOMUTH: And we passed the silver platter on to the Inglis Company.

Mr. McLEAN: Mr. Chairman, I think the discussion is out of order.

By Mr. McGeer:

Q. Colonel Orde, may I suggest to you that in addition to paying the $\frac{1}{3}$ rd and owning all the machinery, there were other substantial concessions made to Canada by the British war office to bring about the production of Bren guns in Canada for Great Britain?—A. Very substantial.

Q. For instance, and I am referring to schedule 4 of exhibit 11, which is a statement of the difference in the labour costs in England and the material costs—

Mr. MACNEIL: May I ask what point we are on now?

Mr. McGEER: We are on the point raised by the honourable member for Vancouver South (Mr. Green) as to the justification for Canada paying $\frac{1}{3}$ rd of the cost of the machinery as against Britain paying $\frac{1}{3}$ rd. Of the guns produced Canada was to receive 7,000 and Britain was to receive 5,000, which would indicate that the basis of the payment on the cost of machinery should have been $\frac{7}{12}$ ths and $\frac{5}{12}$ ths rather than $\frac{1}{3}$ rd and $\frac{1}{3}$ rd. That is the point I am on.

The WITNESS: Yes.

By Mr. McGeer:

Q. And as I understood you to state one justification for that difference was that at the expiration of the contract for the production of 12,000 guns Canada would own all the machinery?—A. I would go further than that. It is not at the expiration of the contract; Canada owns that machinery as soon as it is bought.

Q. In any event, Britain has no longer any interest in it after her 5,000 guns are produced?—A. That is right.

Q. So that there is a complete ownership and no longer any responsibility to Great Britain at all at the end of the production of the 12,000 guns?—A. That is true.

Q. Or at the expiration of the period for the production of 5,000? I would suggest that in addition to that, according to schedule 4, the production of guns for England in Canada was accepted on a price adjusted to higher costs of labour and material in Canada?—A. I think the facts speak for themselves.

Mr. McGEER: I should like to put this on the record, because I think it is important. This is schedule 4 of exhibit 11, presented before the Davis inquiry by the Department of National Defence:—

COMPARISON OF ENGLISH AND CANADIAN LABOUR RATE SCHEDULES
DECEMBER 10, 1936

Class of labour	English rate Cents per hour	Canadian rate Cents per hour	Per cent increase Canadian over English
Unskilled.. . . .	28	40	42·8
Third class.. . . .	30½	45	47·5
Second class.. . . .	32	48	50·0
First class.. . . .	33½	55	64·0
Skilled fitters and turners, millers	37½	60 to 70	73·3
Toolmakers.. . . .	38 to 39	75 to 85	80·0
Gauge makers.. . . .	38 to 44	75 to 85	95·0

COMPARISON OF ENGLISH AND CANADIAN MATERIAL COSTS

DECEMBER 10, 1936

Canadian sources of supply have been established for practically all of the materials entering into the construction of these guns. Prices we have received on these materials average 40 per cent over the Enfield materials cost, due in the main to special specifications and relatively small quantities.

The Enfield material cost is given us as \$26.37 per gun during the first year of production, and \$19.47 per gun thereafter. We estimate our materials cost at 40 per cent over and above the Enfield figures, or \$36.72 per gun for the first 1,000 units built and \$27.25 per gun thereafter.

Mr. MACNEIL: Mr. Chairman, I think that at this point we might as well reach an agreement about these matters, and we might as well abide by any agreement reached. We are all of equal status on this committee, and we must all abide by the rules established by the committee. I understood that evidence was being given by Colonel Orde, and that we as members of the committee should confine ourselves to questions directed to Colonel Orde. I have a great deal of evidence I should like to introduce, and I do not think that Mr. McGeer at this stage should be at liberty to put on the record evidence which he considers should be brought to the attention of the committee. If he desires to do so he should take the stand as a witness and be subject to cross-examination.

Mr. SLAGHT: That is sheer nonsense. What Mr. McGeer is doing is presenting to the mind of Colonel Orde certain facts and asking him whether or not they are to the benefit of Canada in connection with this contract. Surely he is quite within his rights. If Mr. MacNeil wants to do the same thing he ought to have the opportunity to do it.

Mr. MACNEIL: Mr. Chairman, I ask for your ruling.

The CHAIRMAN: How much more material have you on that matter, Mr. McGeer?

Mr. McGEER: I have completed the material. But may I put the thing squarely to you? The member for Vancouver South (Mr. Green) has raised a specific point of importance to the committee—

Mr. MACNEIL: By question.

Mr. McGEER: By question. That point is, what was the justification for our paying 2/3rds of the cost of the machinery when we were only getting 7/12ths of the guns? The first explanation given by Colonel Orde was that we owned all the machinery that was purchased. But that was not all. What I suggested to Colonel Orde was that there may be other considerations of value which justified our paying 2/3rds as against 1/3rd. And one of the things I submitted to him was that notwithstanding higher labour costs and higher material costs in Canada over England, the British war office had come in and co-operated with Canada by purchasing 5,000 guns in Canada at a price adjusted to compensate for both higher labour and higher material costs. So that there might not be any question about the fact of higher labour and material costs I merely read a very short statement of the facts which happened to be on the record in the Davis inquiry. And then to base the question: Is that not in your opinion a valuable concession on the part of the British war office to us? Now we come—

Mr. MACNEIL: Let the witness answer.

Hon. Mr. STEWART: Mr. Chairman, is it not perfectly clear that Great Britain would have had to pay these higher costs when she decided to have the guns made in Canada whether she joined in this contract or not?

[Colonel R. J. Orde.]

The CHAIRMAN: May I go back and see if I can clarify this situation or give a ruling in connection with the point raised by the honourable member for Vancouver North (Mr. MacNeil). My judgment is that he raised two points: first, whether Mr. McGeer was within the realm of taking evidence; and the other was that the other members of the committee had the same right. I would rule that Mr. McGeer, up to the point he had reached, is within the confines of the committee; secondly, that each and every member of the committee, as far as I am concerned, will receive exactly the same treatment and be given exactly the same opportunity.

As far as the statement made by the Hon. Mr. Stewart is concerned, he will direct his question to Colonel Orde as soon as Mr. McGeer's question is answered.

Hon. Mr. STEWART: Mr. Chairman, it seems to me that it is very relevant right here.

Mr. McGEER: Mr. Chairman, may I get an answer to my question?

Hon. Mr. STEWART: I submit that Great Britain would have had to meet these costs whether she joined in this contract or not.

By Mr. McGeer:

Q. Was that not also a valuable concession made by the war office to the Canadian government in the development and production of Bren guns for Canadian service?—A. I would say it is not so much a valuable concession as valuable assistance in reducing, as far as we were concerned, the cost of the Bren gun.

By Mr. Bercovitch:

Q. By how much?—A. That is a matter for the accountants; I cannot speak as to that. The cost per gun is obviously less if you make 12,000 than if you make 7,000.

By Mr. MacNeil:

Q. In your opinion could not the same degree of assistance have been negotiated with the British government with respect to public manufacture or manufacture in a dominion-owned arsenal?—A. I have my views on that which are my personal views; they may not be welcomed officially.

By Hon. Mr. Stewart:

Q. Are we not getting a corresponding advantage of a reduction in price by uniting with the British government in this larger unit of production?—A. Quite. It is reciprocal.

By Mr. McGeer:

Q. It is reciprocal in this way; that Great Britain could produce those guns in their plants in England or any private concern in England. There was no need for England to come to Canada to purchase 5,000 guns?—A. There was no, what shall I say, legal need, but if you review the reports of the imperial conference of 1937, you will see that Great Britain was searching for a secondary source of supply outside of, what shall I say, the immediate danger zone of air raids and vulnerability.

By Mr. Homuth:

Q. Colonel Orde, in regard to the British order for 5,000 guns, the British government wanted to have those manufactured in Canada?—A. As far as I am aware, that is so.

Q. I mean, did the solicitation for the manufacture of 5,000 guns come from the British war office or did the solicitation come from the Canadian department?—A. I am not sure. I cannot answer that. I am not in the inner councils of the government.

Mr. McLEAN: On a point of order, Mr. Chairman, I submit that the whole discussion for some time back has been out of order. Yesterday this committee agreed to listen to Colonel Orde's exposition of the contract, to indicate to us its value as a legal document and how the interests of the dominion were affected; also how the Department of National Defence is protected in the contract. That is all Colonel Orde is capable of giving us. Two or three times this morning he said, "That is hearsay evidence I am giving," or "That is my own opinion I am giving." He has been asked questions as to the relative value of the contract in terms of dollars and in terms of supplying the guns, and I submit he is not the witness of whom we should ask those questions. I think we should get on with the exposition of the contract, as we agreed yesterday.

The CHAIRMAN: In my opinion the only way we are going to get this thing clarified is the way I suggested to you about a half an hour ago, and that is that the members of the committee must use their own judgment and not ask questions of Colonel Orde which he cannot answer.

Mr. FACTOR: Mr. Chairman, may I suggest further to you, as a matter of procedure, that we allow one member to ask questions and to continue to ask questions until he is exhausted—or until he has exhausted his line of questioning?

The CHAIRMAN: I do not know whether the hon. member wants me to take his former statement or the latter, and give him a ruling on that?

Mr. FACTOR: I would suggest, in all seriousness, that one member should be allowed to proceed with his questioning of Colonel Orde and complete it and then let another member take up his questions. We will never get along if we continue cross-firing and arguing as we are doing at this stage of the proceedings.

The CHAIRMAN: I quite agree; but let us get back to point No. 1. I have asked the members of the committee to try and confine themselves to the questions that Colonel Orde can answer. Secondly, to keep this thing on an even keel a certain amount of laxity probably is necessary. Now, I submit it is up to the hon. members of the committee to try to assist us in this way.

Mr. FACTOR: May I ask you this: has Colonel Orde any other statement to submit to the committee or is he prepared to be questioned on the contract?

The CHAIRMAN: That is a fair question.

By Mr. Factor:

Q. Have you anything else to state on your own volition to the committee that you think the committee ought to be informed of?—A. Yes; there are two little things that may be rather picayune, and the committee may not want them; but I made some notes yesterday arising out of Mr. Elliott's evidence of one or two small items which might arise. I have been asked about these items before, and they refer to paragraph (k) on page 7 of the contract. You will see there that part of the costs of the production are the tests of the Bren gun. Somebody raised this point the other day: Why do you not test it in the department? Well, there are two separate tests. One is a test made by the contractor during the course of manufacture and the other is the test we make before we accept the gun.

By Mr. Homuth:

Q. Who conducts the firing test?—A. The contractor may have his firing test before we accept it. We have our own test plant there—I do not know how you would say it—a little bit of a room, set up for our own tests.

[Colonel R. J. Orde.]

Mr. McLEAN: Again I repeat my point of order. This is the type of question Colonel Orde cannot be expected to answer.

Mr. DOUGLAS: He answered it.

Mr. HOMUTH: He raised the question.

Mr. McLEAN: How is it answered?

Hon. Mr. STEWART: He has given you the answer.

Mr. McLEAN: What is the value of the answer? It is an answer given by a legal man which should really be given by a technical man in the department.

Mr. DOUGLAS: He has given the answer.

The CHAIRMAN: May I say to the hon. member that up to this point I have agreed with him, but now Colonel Orde is only pointing out that the contract provides for two tests, one by the contractor and one on behalf of the government. As long as he does not tell us how the tests are made I believe he is in order.

Mr. McLEAN: The point I raise is this: a member of the committee asked Colonel Orde how the tests were carried out, and he undertook to tell him that they have a certain small room of their own in which the tests are carried out in a certain way. What evidence is that?

By Mr. McLean:

Q. Do you know, Colonel Orde, the exact manner in which the tests are carried out?—A. No, and I did not attempt to give evidence on that.

Q. Of course, you would not.

Mr. ANDERSON: On that point, section 5—

The CHAIRMAN: Order.

Mr. ANDERSON: Section 5 deals with cost, and subsection (k) simply says "cost of Bren gun tests."

By Mr. Anderson:

Q. That was the cost of tests made either by the contractor or the government. Is that what is meant?—A. No, sir.

Q. What does it mean?—A. The cost of the test made by the contractor; the government makes its own tests, but the contractor has no control over what we do at all.

Q. He has to show what these costs amount to, and we have the right to be satisfied; that is all it includes?—A. Precisely. Under section 6 every statement of cost made by the contractor must be certified by our own inspector there.

By Mr. Homuth:

Q. Colonel Orde, just to clear this up, the tests are made in Toronto before the machines are delivered to the various sections of Canada?—A. I have no idea where the tests are made at all, no.

By the Chairman:

Q. By the contractor?

By Mr. Homuth:

Q. I say—A. All I can say from my own knowledge of the tests is this: one is made by the contractor in the course of manufacture and the other would be different, maybe made by the department through its own technical officials.

Q. I understood you to say they were constructing a room in which the government will make tests?

The CHAIRMAN: We have ruled that out of order.

The WITNESS: Mr. Elliott also mentioned section 8 which appears on page 11; that is the lien section. I do not know whether you want any elaboration of that, but that has been a standard provision ever since we have been making progress payments. I might say it has been in operation for the last fourteen years. The banks know all about it, and the bank and the contractor, whoever he may be, have an agreement there which has been accepted by the bankers' association. It covers the contractor and it is pure routine so far as the departmental accounts are concerned. They know all about it; they check up and they see whether there is a lien by the bank or any other lender of money on material and as we make a payment that lien is reduced.

By the Chairman:

Q. That is a standard clause?—A. A standard practice.

By Mr. Anderson:

Q. To indemnify?—A. It is to prevent anybody ranking prior to the government in respect of progress payments.

Q. We can be reimbursed out of these interim payment securities?—A. No.

Q. The clause reads “. . . shall be reduced by the amount of the interim payment provided in section 6 . . .”—A. Let me put it this way: you loan money to a contractor, you get a lien on his raw material. As we make a payment to you, to the extent that the payment pertains to the material that is being used up in the manufacture of the article, that lien must be reduced.

Q. You are referring to the lien that the bank holds?—A. Yes.

Q. I am not referring to that. I am referring to the right as between the government and the contractor.—A. That is under another section entirely.

Q. It is not under section 8?—A. No.

Q. He undertakes and agrees that the amount of any such lien, mortgage or other charge, shall be reduced?—A. That is not the government lien, sir.

Q. That is the contractor, as between him and the government?—A. I am afraid—

The CHAIRMAN: Section 8, Mr. Anderson?

By Mr. Anderson:

Q. What does that mean, tell us that?

The CHAIRMAN: Section 8, on page 11?

Mr. ANDERSON: Clause 8. The section goes on—we do not need to read the whole thing—in such event, if there are liens, “the party of the second part hereby undertakes and agrees that the amount of any such lien, mortgage or other charge shall be reduced by the amount of the interim payments . . .” What do you mean by “reduced”?

The WITNESS: I will give you a simple illustration. If a bank, under section 88, has loaned money to the company and has a lien as security on the raw materials; then, as these raw materials are incorporated in the Bren gun and we make progress payments, the contractor has to pay to the bank—

By Mr. Anderson:

Q. The lien is reduced?—A. —the amount equal to our interest in these materials, thereby reducing the lien.

By the Chairman:

Q. That would be the usual procedure?—A. It is routine procedure.
[Colonel R. J. Orde.]

By Mr. Green:

Q. Is that section meant to apply during the construction period?—A. At all times; it runs throughout the contract.

Q. Is it in use yet in this particular contract?—A. I do not know whether the contractors borrowed money from the bank, whether there is any lien. That is a matter for our accountant.

By Mr. Brooks:

Q. It says during construction, Mr. Chairman. It must be during the construction period?—A. It would be during the construction period. There would be no occasion, really, for the bank to loan money in respect of the preparatory period.

By Mr. MacInnis:

Q. It all depends on circumstances, does it not? If the company is in a position to pay for that material as they need it, it would not come into operation at all?—A. They would not want any financial assistance.

MR. FACTOR: Quite.

THE WITNESS: The last item that I have in mind is section 19, and it is a rather unusual one. It is an application of what is really a standard insurance clause. I am referring to page 14 of the contract. The normal clause of that type deals only with fire insurance; but there are other risks that have to be covered here and possibly those risks might not be accepted by an underwriter; therefore we had to make provision that if the loss was insured against sabotage, etc., and we could not find an underwriter to take it, the company should not bear the burden of their failure to insure against risks that we specified.

By Mr. Green:

Q. Is there any bond called for in that connection by the company?—A. No, there is no bond. I am very glad you raised that point, Mr. Green, because—may I mention this: perhaps it would be of interest to the committee to hear this. In our very first of these cost-plus contracts which was entered into on June 2, 1937, which had to do with another article, there was a provision that the company will supply in a form satisfactory to the department a bond guaranteeing due fulfilment of the contract. That is the ordinary bond clause that you will find in a contract.

By the Chairman:

Q. A performance bond?—A. A performance bond. It happened at the time when my minister and deputy minister were over at the coronation. The contractor and myself searched over all Canada, the United States and England to find an underwriter who would take up a bond like that, and we could not find a company anywhere who would assume the indemnity put on the performance bond because they all said, "so much of this contract is at the whim or discretion of the Department of National Defence. By refusing approval of this, or refraining from approval of that item, the department might create a situation where the contractor would be incapable of fulfilling his obligations; therefore we are not going to write a blank cheque." As I say, it was a physical impossibility to obtain a performance bond for a contract of this type.

By Mr. Green:

Q. The only thing that stands behind that covenant is the word of the contractor and the assets of the contractor?—A. That is so.

By Mr. Brooks:

Q. Did you have a performance bond in your other condition contract?—A. Only where it is on a straight form-bid basis, that is a lump sum tender basis.

By Mr. McGeer:

Q. On standard equipment?—A. On standard equipment, but where practically everything that the contractor does is subject to our prior approval—I am not going to mention the name of the company, but you all know the various indemnity and insurance companies.

By Mr. Bercovitch:

Q. In other words, the insurance companies thought the clauses were too drastic for them to take the risks?

Mr. HOMUTH: No.

By Mr. Bercovitch:

Q. That is my question?—A. I put it this way, the insurance companies said that by a stroke of the pen the dominion government can make it impossible for the contractor to fulfill his obligations, and why should we take the risks of underwriting the performance bond.

By Mr. McGeer:

Q. That is exactly what Mr. Bercovitch asked. The terms of the contract were so drastic, and so much power was vested in the dominion government, that no insurance companies would take the risk?—A. I am telling you exactly what I heard and was told over the long-distance telephone from London, Seattle, New York and Montreal.

Q. That is the answer?—A. That is the answer.

By Mr. Bercovitch:

Q. The answer is yes? Is the answer “yes” or “no” to my question? I take it, it is “yes”?—A. Yes.

By Mr. Brooks:

Q. Could they not just as well have said that they were not satisfied now?—A. Your guess is as good as mine.

Q. And just as good as Mr. Bercovitch’s.

By Mr. Bercovitch:

Q. Did you get that answer?—A. I got the answer.

Q. That they were not satisfied now?—A. No, I did not get that answer.

By Mr. MacInnis:

Q. What answer did you really get?—A. The answer that I got was that there was so much discretion vested in the dominion government, that in fact by a stroke of the pen they could make it impossible for the contractor to fulfill his obligations.

By Mr. Bercovitch:

Q. Therefore they would not insure?—A. They would not insure.

[Colonel R. J. Orde.]

By Mr. Homuth:

Q. I take this from your statement, because it was a contract between a private company and the government, with the government having the right of cancellation, that they were not taking the risk?—A. No, not at all. We get indemnity bonds all the time in respect of contracts.

By Mr. Factor:

Q. That can be cancelled?—A. In respect of contracts which can be cancelled.

By Mr. MacNeil:

Q. In view of the fact a performance bond could not be supplied, what substitute was made to provide protection?—A. In this particular contract?

Q. Yes.—A. That contract was the only one. We got a bond from the company itself, a penalty bond, which was the best thing we could get; otherwise we could not get on with the work.

Q. The John Inglis Company?—A. No, this was another company entirely.

Q. I am referring to this company. In regard to this contract you said it was impossible to provide or secure a performance bond?—A. We never tried.

Q. In drafting the contract did you substitute any other protection to the government in regard to the non-performance of the contract?

MR. FACTOR: Mr. MacNeil is referring to this Inglis contract.

THE WITNESS: My statement had reference to—as a matter of fact, it had to do with an aircraft contract, nothing to do with the Inglis company at all.

MR. FACTOR: He is referring to the Inglis company.

THE WITNESS: May I give you a picture there, Mr. MacNeil? We knew we could not get—from the experience I have just outlined—a performance bond for a contract of this type and there was no use trying to shop around to get it; therefore we had to rely on the ability of the contractor himself, and if the contractor could not fulfill the contractual obligations, what earthly good was there in getting some other written document putting in a penalty or something like that?

By Mr. Homuth:

Q. Then there is no protection outside of the protection of the company's word itself?

MR. SLAGHT: Yes, there is, there is great protection, if you will permit me to ask Colonel Orde this. Does the contract not provide that if there be default by the company the government may take over all the assets of the plant, the works and carry out the contract itself, having the benefit of anything that has been done up to date?

THE WITNESS: Certainly, sir.

MR. BROWN: That is for reason, though.

By Mr. McGeer:

Q. That is for failure to fulfill the contract?—A. If there is default. If you will look on page 13, section 17 you will see that provision there. It is provided for in both sections 14 and 17. If the contractor goes broke we have a lien on his plant. If he does not fulfill his contract we step in and we take over the whole establishment.

By Mr. Green:

Q. We take out our own machinery?—A. He has much more than our own machinery in there.

Q. What about this insurance? Has the situation developed that the company cannot get insurance?—A. They can get insurance.

Q. So that there would be no difficulty about them obtaining insurance at all?

Mr. BERCOVITCH: Are you talking of fire insurance?

Mr. McGEER: I thought we were talking about a bond for fulfilment of the contract, not a question of insurance.

By Mr. Green:

Q. This paragraph deals with insurance?—A. Where?

Q. I am asking whether the difficulty has developed that the company cannot get insurance? Paragraph 19.—A. I thought I had—

Q. You said they could not get a bond when they tried. What about insurance? Can they get insurance?—A. No, I mentioned no difficulty about insurance, or that there had been any possibility of not getting insurance.

Q. What risks have they been asked to insure against?—A. I cannot answer that. That is a matter of departmental administration. The risks normally are fire and theft. I think there is riot insurance which you can now carry, and some of the companies are considering underwriting sabotage.

Q. You do not know whether such insurance has been placed?—A. No, that does not come into—

By the Chairman:

Q. It is provided for here?—A. It is provided for, and they have got to insure against such risks, we say, provided such are insurable. To go back to what Mr. Slaughter mentioned, section 14 and 17 give us all the protection that you can demand from the company, and any other sort of bond that the company itself may issue is merely a surplus.

By Mr. Brown:

Q. To get back to that point again, what specific reasons did the companies give you for not wanting to place bonds?—A. I answered that question.

Q. I want to know; it is all right. If the other members did not ask so many questions apart from that point probably I would have got it.

The CHAIRMAN: Go ahead.

The WITNESS: The reasons the companies told me personally were that—

Mr. BERCOVITCH: The insurance companies?

The WITNESS: The guarantee companies and other companies like that, Lloyds and so on.

By the Chairman:

Q. Let us get this straight so everybody will know what you are dealing with. You are now dealing with a performance bond?—A. A performance bond, not fire insurance, but a performance bond.

By Mr. Brown:

Q. Yes?—A. The reason given to me by every one of the high officials—and I will give one that will be illustrative of them all—was this: they said that so much of the control of the carrying out of the contract was within the crown's discretion that by refusing approval of a certain item or refusing to concur in this or refusing to concur in that, that the contractor would be incapable of fulfilling his contractual obligations.

Q. Just to follow that, the department—

Some Hon. MEMBERS: Let him finish.

[Colonel R. J. Orde.]

By Mr. Brown:

Q. The department cannot withhold that consent without a specific reason?—

A. I am not talking about this contract.

Q. From a legal point of view?—A. The department have that right.

Q. Without a substantial reason?

Mr. BERCOVITCH: Let him answer.

The WITNESS: Certainly it could have withheld its consent; it could have refused to agree to certain wage rates, or certain materials being purchased.

By Mr. Brown:

Q. I understand the wage rates are in the contract?—A. I am not talking about this contract, I am talking about an actual one where I telephoned London, Seattle, and several other places for a performance bond, and that contract was almost word for word with this one.

By Mr. Bertrand:

Q. The government has the right to be reasonable and it has the right to be unreasonable, and that is why the guarantee companies did not want to have this bond?—A. That is pretty well what the insurance companies said.

By Mr. Homuth:

Q. In other words, you tried to get a bond for some other contract and you could not get it. That other contract was similar to this. You could not get it for that contract and you did not try to get it for this one?—A. That is precisely so. The principle was exactly the same in both contracts. As a matter of fact, this contract here was based on the one that I mentioned.

By Mr. McLean:

Q. The bonding company was not willing to risk its own money on the reasonableness of the department?—A. That is it exactly.

Q. They did not want to bet.

Mr. GREEN: They were waiting for a change of government.

Mr. SLAGHT: They will have a long, long wait.

By Mr. McGeer:

Q. Does not it summarize itself to this, that in preparing these contracts you have taken so much power of supervision and restriction over the contractor to secure the fulfilment of the contract that in the first place a bond is not necessary, and in the second place your powers are so drastic that a bond cannot be secured?—A. A fair answer to that is "yes."

Q. Then these provisions which the indemnity companies have considered are really the security and protective provisions for the fulfilment of the contract which the government gets the benefit of. A question was asked you a while ago by Mr. MacNeil—A. Yes.

Q. —that not being able to get the bond, what provision have you made in the contract for the security and protection of the government interests?—A. Sections 14 and 17.

Q. In addition to that you have all the way through this contract almost complete and unqualified powers to control and supervise—in fact, I go this far, it is practically daily control, or almost hourly control there?—A. Take the purchase of material and equipment. If the company buys anything, it is always reserved to the department to say "yes" or "no."

Q. That is an obligation under the contract.—A. Precisely.

Mr. FACTOR: They must get the approval of the government before.

By Mr. Bercovitch:

Q. Let us have his answer first.—A. I think I can answer that question by indicating the procedure which is followed there. Before a contractor, whether it be the John Inglis Company, or the Fairchild Company, or whoever it might be, buys anything, before it takes on an executive or pays an executive's salary, before it creates any expenditure in relation to the contract, it sends in to the department what is known as a "request approval application." That is a request to the department in this manner: "Will you approve of this as being embodied in the cost?" It is on a printed form and the section number in the contract is indicated. It comes in four copies, green, red, white and blue, if I remember rightly. I see a lot of them. That comes in and it is considered; sometimes it is approved, sometimes it is not, and unless it is approved it is not comprised in the cost.

Q. That would constitute a breach of the contract if not approved?—A. No. We approve it; and if we do not approve it, then if the company in its monthly statement on which it is claiming progress payment embodies something not approved, it is struck out.

By Mr. Douglas:

Q. May I ask a question which may come under administration? Are there two approvals, one on purchases and one on paying, or one to cover the whole thing?—A. How do you mean?

Q. The John Inglis Company requires, say, a certain piece of machinery to be installed that has to be purchased. Is there approval first of all to secure that piece of machinery and then, another approval to pay for it? There is machinery in the plant now which has been installed and which has not been paid for yet. I understand that is pending approval for payment.—A. Let me give you a concrete illustration that came up the other day and that will probably answer your question. The John Inglis Company put in what we call a request approval for the purchase of some office equipment, a desk, as it happened. We approved of that. There had to be a desk somewhere in the gun factory. We approved of the purchase of that desk. In its monthly statement, or monthly claim for a progress payment, there would be an item of one desk for an office at \$24.48 or whatever it is. We have approved of the purchase, but as it comes in again in the statement for reimbursement, that has to be approved to know whether they had the desk and whether the price paid for it is fair.

Q. In the case of machinery it would be approved of by the particular official, the master of ordnance, or some particular official who approves machinery?—A. Actually we are purchasing the machinery; the government is purchasing the machinery.

Q. Who approves of the specifications as they come from the John Inglis Company as to what they require?—A. That is outside my knowledge, I cannot say.

By Mr. Isnor:

Q. As we are dealing with section 19, may I ask this question, and if you answer it "yes" or "no" it will satisfy me. Are the provisions of section 19 of the contract being carried out at the present time?—A. I cannot answer that because I am not administering the contract, Mr. Isnor.

Q. The witness says he is not able to answer that question. I understood he had drawn up the contract and naturally would follow it through to its completion.

Mr. SLAGHT: No.

[Colonel R. J. Orde.]

Mr. ISNOR: So far as the contract is concerned. I do not want to know anything about some other enquiries made in connection with another contract, I want to know if there were any enquiries made in connection with the carrying out of the provisions of clause 19 in connection with this particular contract.

Mr. HOMUTH: He has already answered no.

Mr. ISNOR: Let him answer.

Mr. MCPHEE: That is not a fair interjection. He did not make any such answer as that. He said no with regard to the bond but not with regard to insurance.

By Mr. McGeer:

Q. It is a question of whether or not the insurance is being maintained.—A. I do not administer the contract; it is the director of contracts of the department.

By the Chairman:

Q. Your answer is that you cannot answer?—A. I have no information.

Mr. ISNOR: Then there is no information available from this witness in regard to the question as to whether clause 19 is being carried out?

Mr. McGEER: That is because this witness is not the proper witness to answer that question.

Mr. ISNOR: It is part of the contract.

Mr. McGEER: He is not administering the contract.

Mr. ISNOR: He does not know whether that part of the contract is being carried out?

Mr. McGEER: The director of contracts can give you that information.

The WITNESS: I can get the information for you if you want it.

By Mr. McGeer:

Q. We have dealt with the method of purchasing a desk. There has been some question raised that on these cost-plus contracts there can be salaries and directors' fees and increases of profits. I think somebody said in the house the other day that you could pay \$10,000 for a directors' fee for a meeting. What I wanted to ask was, are all the salaries paid to officials and directors involved as part of the costs of this contract under the same control as the purchase of a desk?—A. Precisely.

Q. And everything else, from directors' fees, officials' salaries, purchases of machinery, down to the purchase of an item of office equipment, such as a desk, is under the direct control and supervision and final sanction of the department?

The CHAIRMAN: Yes or no?—A. The answer to that is yes.

By Mr. Homuth:

Q. I should like to ask a question that I have tried to ask on two or three occasions. Reference has been made by Mr. McGeer, yourself and others to the drastic provision for supervision under this contract. Is not the same care taken in every contract that the Department of National Defence draws up?—A. Undoubtedly.

Q. In view of that, there are some contracts, however, that you have been able to get a bond on?—A. No, on no contract on a cost-plus basis has it been possible to obtain a bond. On a lump-sum basis where we have not got all that rigidity of control, there has been no difficulty. It is ordinary current practice.

By Mr. MacNeil:

Q. May I ask the Colonel to explain the concluding sentence of subsection 5 of (e), clause 3, where it says: "ten per centum of such costs as are mentioned in paragraph 4 of this section"? Paragraph 4 relates to certain costs in clause 5.

Mr. HOMUTH: Are you dealing with number 5 on page 3?

Mr. MACNEIL: Yes.

Mr. HOMUTH: Have we passed number 1?

Mr. MACNEIL: If you wish to deal with that, I will defer my question.

Mr. HOMUTH: I think perhaps the committee ought to be given some idea as to the expenditure under clause 1.

By Mr. Homuth:

Q. Can you give that, Colonel Orde, or would that have to come from another source?—A. Is that clause 1, paragraph (e), on page 3?

Q. Yes.—A. I have no information there. That goes through our accountant and through the deputy minister.

By Mr. McGeer:

Q. But as to what that means, it is a total amount of \$20,000 for costs of preliminary investigation, planning and engineering services. No amount of that can be paid without the approval of the department?—A. Not without the approval. It must have the approval of the department and must be supported by vouchers.

Q. That is, if they put in a claim for \$20,000 they would have to prove that there had been \$20,000 actually expended in preliminary investigation, planning and engineering?—A. Certainly.

By Mr. MacNeil:

Q. Plus 10 per cent?—A. No, there is no 10 per cent on that.

Mr. HOMUTH: Just at this point, Mr. Chairman, you can see the necessity for trying to get all the vouchers and other papers in connection with these expenditures. I think we ought to have those available in our committee room before we call any of the accountants in connection with these payments.

The CHAIRMAN: They are covered in the last part of what I read this morning.

By Mr. McGeer:

Q. That was pretty fully considered by the department, was it not, Colonel Orde?—A. It was fully considered by the department, and you will find a great deal of evidence on that, what we call the \$20,000 clause, in the Davis commission evidence.

By Mr. Douglas:

Q. Just on that point, who would pass that, the deputy minister or the department?—A. It would have to be accompanied by vouchers. It would go to the deputy minister, the same as all outside correspondence. It would be addressed to him. He would send it to the director of contracts and he in turn would have it checked by his auditors and the treasury staff in the department.

Q. I have not only in mind the question of the vouchers and the authenticity of the expenditure, but as to whether there is some person qualified to say whether or not that is an extravagant expenditure. For instance, I have in mind the voucher submitted from Major Hahn in connection with his expenses in Ottawa while negotiating the contract. You might have the voucher, the

[Colonel R. J. Orde.]

expenditure might have been made, but who would have power to decide whether that was an extravagant or unnecessary charge?—A. The deputy minister or the minister. He has absolute power to say, "Well, I think your bill is too high; you have been living at a Rolls-Royce rate instead of at a Ford rate."

Mr. McLEAN: Mr. Douglas' question was who the proper official would be to whom the deputy minister would refer it.

Mr. DOUGLAS: No, no; I wanted to know what official in the department would authorize the payments, not on the basis of whether it was authentic but whether they thought it a proper amount.

The WITNESS: I speak from what I know of ordinary departmental practice. The deputy minister would deal with it and if he felt it was a little bit too big he would probably get the minister's decision.

The CHAIRMAN: I think Mr. Douglas wants to find out what official it would go to before it reached the deputy minister? Is that what you want, Mr. Douglas?

Mr. DOUGLAS: No. I wondered who would be the proper authority to decide whether the amount was a proper amount, having accepted the item. He has answered the question and I am quite satisfied with his answer.

The WITNESS: I might go a step further. It would also be an apt question as to who would say whether a particular item was comprised in engineering planning or preliminary service.

Mr. SLAGHT: That would be for the audit branch primarily, and if they had any doubt in the matter they would refer it back.

The WITNESS: You might say, "Look here, we have had a firm of chartered accountants in to make appraisals; is that comprised in preliminary investigation, planning and engineering?" On a question like that it would be a matter—

Mr. SLAGHT: Mr. Chairman, are we going into all the administrative aspects of this matter? No one has attacked the audit branch and no one has attacked the problem as to whether that will be efficiently done. I think it will take a lot of time.

The CHAIRMAN: I agree with the honourable member.

Mr. DOUGLAS: That was not the point I raised at all. I am assuming that a voucher had been brought in and the audit branch are quite satisfied as to its authenticity; yet as the Colonel said I would want to know whether it is a proper reimbursement and whether it comes within the classification of planning and engineering services. I wanted to know if in the event of certain vouchers being presented about which there might be some doubt, who would be the official authority; and he has answered it to my satisfaction.

By Mr. Green:

Q. Colonel Orde, this \$20,000 covers services rendered before the signing of the contract; it has nothing to do with anything that happens afterwards?—A. No.

By Mr. MacNeil:

Q. Is that usual in your contracts, Colonel Orde?—A. Not in these terms, but in other contracts we have paid all the preliminary legal expenses where we have had to get a licence from the owner of an aircraft. I cannot give you the names of the companies, but there were three aircraft contracts where the contractor had to get a licence from the British patentee and he naturally had to incur certain expenses, legal costs, and so on. We have done it before.

Q. Was this clause intended to provide for Major Hahn's expenses in England while he was a potential contractor?—A. I have no jurisdiction to pass on whether Hahn's expenses in England or Ottawa came in that.

Mr. FACTOR: The department will have to interpret that clause.

Mr. McGEER: To clear up that point I might suggest that that matter was dealt with in Exhibit 32 which was submitted to the Davis commission. It was a report of Clyde Caldwell, master-general of the ordnance. I think it is informative and, with the consent of the members of the committee, I should like to put it on the record because I think it brings into focus the consideration that was extended to that particular point. It is very brief.

Mr. GREEN: Mr. Chairman, if that is done, I should like to raise the point brought up by Mr. MacNeil. If when these things come out Mr. McGeer is going to take one exhibit from the record and read it into this record, we are only going to have all kinds of confusion. Major-General Caldwell was not called as a witness. It is a statement from him, not sworn to, and therefore its value can be questioned.

I submit you should not allow the proceedings of the committee to be carried on in this way. It just makes a farce of them.

Mr. McGEER: With reference to that, Mr. Chairman, I would say this: There are 4,000 and some odd pages of evidence. Certain points have definitely been raised. One of the chief points of talk made by your party upon this contract, or criticism—I do not mean to be offensive—was that the payment of \$20,000 never should have been made.

I suggest that it is pertinent to the members of the committee to know something of the consideration that was given to that very thing. Here is a statement of the master-general of the ordnance to the deputy minister of national defence dealing with that very point and giving the reasons of the department for considering that this provision was acceptable and fair to the department.

If my friend suggests that this is not a correct statement, then, of course, he can call the master-general of the ordnance and have it questioned. But for us to get at the facts which justify or refute the terms of this contract is really the purpose of the committee; and where we have a point raised and an explanation dealing with the reason for the provision in the contract it surely can not be farcical to put that on the record.

Now, everyone can get these exhibits and read them, just as I have done. If people do not want to read these exhibits, that is their privilege. I say that it is not obligatory upon members of the committee to do that; but I believe that this does give pertinent evidence of really valuable import to the committee as to the reason why this provision was included in the contract, and I ask your leave to put it on the record.

Mr. MACNEIL: If Mr. McGeer desires to put this on the record at this stage, I also have a copy of the exhibits and there are other exhibits bearing on this point that I will desire to place on the record. I have refrained from doing so because I considered that this was not the proper stage to do so. We will have ample opportunity to present arguments, and at this stage I believe Mr. McGeer should question the witness in an endeavour to bring out the evidence, and if he does not secure the evidence required some other witness could no doubt be called to give it.

Mr. McGEER: In answer to Mr. MacNeil I want to say this: I believe it is the privilege of every member of this committee to submit from the exhibits and from the evidence before this commission the items which he thinks are worthy of the committee's consideration. I certainly have no suggestion to offer, Mr. Chairman, to the effect that the very procedure that I am following is not available to every member of this committee. In any event, I can bring this matter before the committee by quoting this portion of the report and asking the witness whether or not he agrees with it as a satisfactory explanation as to the justification for that provision.

[Colonel R. J. Orde.]

Mr. GREEN: It is not a question of that at all. We are not dealing now with justification for this or that or the other thing. That involves all kinds of evidence and argument. We are simply dealing with the actual terms of the contract, and I submit that is what we should stick to. Mr. McGeer wants to get this evidence in. It is possible the agenda committee may be able to agree on a lot of these things.

Mr. McGEER: We have agreed on it.

Mr. GREEN: If one member picks out this and that and draws it into the committee it will make it hopeless to get on.

Mr. HOMUTH: We are not sure whether or not the exhibit that Mr. McGeer refers to is a complete record covering that clause; that is why I say that before this document is submitted it is necessary to have all these vouchers and other things in connection with the clause before this committee. There may be a time to put this on the record, but I submit the time to do that is not now, but after we have had all these various vouchers and so forth supplied to the committee.

The CHAIRMAN: Gentlemen, my answer to the problem is this. Some members have said that this is not the time to do it. I would suggest to the hon. member that he refrain from reading that into the record to-day, and in order to clarify the situation the agenda committee which deals with procedure, may look into the matter before the next meeting so that we will not have the confusion that we are having now. It may be possible that Mr. Elliott, after Colonel Orde completes his evidence, will be able to answer the question which was brought up by the hon. member, or any other hon. member.

Mr. McGEER: It is just the same thing. If you take that position you are going to arrive at the same place in which we arrived in the former question. You start one thing and you get no place with it and there is no end to it, and there will be no end to it in the record. You are dealing now with whether or not this provision, sub-section (1) of section 3, one of the contentious points of the contract, is justifiable or not. The point I raise is that that was dealt with in a report to the Department of National Defence from the ordnance department, and the reasons were given for approving it and including it. Now, that should reasonably bring that matter to a close, subject to the questioning of the wisdom of the department in its conclusion upon which that section of the contract was based.

Mr. FACTOR: May I also draw this to the attention of the committee? The evidence and the exhibits are now in the possession of the committee; they have been filed with the committee. Surely it is a proper procedure for any member to pick out an exhibit or a portion of the evidence which is relevant to a certain subject matter being discussed and read it and place it on the record?

Mr. MACNEIL: Is that the usual procedure in court?

Mr. FACTOR: We are not in a court of law. Surely, courts of law will often permit certain exhibits to be filed. It is done on examination for discovery, excerpts from these exhibits are often read to the jury. That exhibit is filed with the committee; it is in the possession of the committee and in order to conduct this enquiry in a relevant manner, this clause of the report ought to be filed and this witness or any other witness questioned on the matter.

Mr. DOUGLAS: I agree with your ruling, Mr. Chairman, Colonel Orde has been called here as a legal authority for the Department of National Defence relating to the form of this contract. He has said himself he has nothing to do with the administering of this contract, and this whole thing goes to the matter of administering the contract. I agree with you that the data suggested by Mr. McGeer could be more properly brought out when we are questioning witnesses on administration of the contract.

Mr. McGEER: I am not dealing with administration. I am dealing for the reason for this provision being included in the contract, which is an entirely different thing.

Mr. BROWN: That is the only point. The question was asked as to whether it was customary to include this clause in a contract of this kind.

Mr. McGEER: And that is the very point. It is customary, and I want to go further and show the reason given by the department for including it in this particular contract. It goes even beyond that. It shows that it is much less costly than the provisions in the ordinary contract would be. It is right on the point that you raise. You put your finger right on the point at issue in the committee. It is not a question of administration or the payment of the amount, but it is a question of the reason for it being in this contract.

Mr. BROWN: That is the reason the evidence should not be incorporated at this time.

By Mr. McGeer:

Q. The question I want to ask Colonel Orde is this: first of all I want to read to you, Colonel Orde, paragraph 5 from the report of Major General A. C. Caldwell, master general of the ordnance, to the deputy minister of national defence, dated, Ottawa, December 27, 1937, dealing with this particular contract, and I want to ask you whether or not you agree that that was the reason why that provision, subsection (1) of 3, was included in the contract.

Mr. MacNEIL: Would it be possible for Mr. McGeer to ask the witness to take the exhibit and look at it and then to give his answer?

The CHAIRMAN: What was your point?

Mr. MacNEIL: I have a definite objection, and it is this: if Mr. McGeer claims that right I also claim the same right, and if we all claim that right, we will be in a hopeless mess.

Mr. DOUGLAS: It will be like Anthony Adverse.

Mr. McGEER: We won't be in a hopeless mess if we deal with facts.

Mr. KENNEDY: We can deal with that when we have a witness who deals with administration later on.

The CHAIRMAN: We are not dealing with administration.

Mr. KENNEDY: Someone asked Colonel Orde a question with regard to the \$20,000 preliminary expenses, and Colonel Orde declared it was not in his jurisdiction, but came under the heading of administration. He distinctly said it was not in his line, and I agree with your ruling that this should not not be brought in here at this time.

Mr. BARRY: He was asked if this was the usual term of the contract.

Mr. McGEER: What my friend has just raised is a question of administration. The point we are dealing with is the question of the inclusion of this term in the contract and the point was raised, is this a proper provision to be included in this contract? Then, when you have determined that, the payment of the sum of \$20,000 becomes an administrative point, which Colonel Orde is not interested in at all.

The CHAIRMAN: What is your question now?

Mr. McGEER: My question is, after reviewing this, was that the reason it was included in the contract?

The CHAIRMAN: What portion of this do you propose to read?

Mr. McGEER: Sections 5 and 6, just enough to base a question on.

Mr. SLAGHT: Refer to the page.

The CHAIRMAN: I do not see any objection.

[Colonel R. J. Orde.]

Mr. HOMUTH: May I ask Colonel Orde if he knows why?

Mr. McGEER: Wait until I read it to him.

Mr. HOMUTH: Read it all, then.

By Mr. McGeer:

Q. Have you got section 5 of the report of Major General Caldwell? Apparently this is dealing with the question of whether or not this \$20,000 should be included for fees to the company.

No comparison can be made with the other contract for the reason that the Fairchild's Company has not been placed under any expense whatever in connection with the investigation necessary for the production of aircraft—it is their normal line of business. If the department found it necessary to employ a firm of consulting engineers to plan a plant for the production of Bren guns, there is no doubt that a fee of at least ten per cent on the cost of the plant would be paid, and this would not only be on the machinery but on the tools and dies, etc., which would be required.

In view, however, of the fact that the planning of this plant has been carried out by the company, which it is proposed should undertake the work of production later on, and from which production, a profit will accrue to the company, it is thought that if a fee is to be paid it should not exceed five per cent on the cost of the machinery plus such other amount as may be approved for the preliminary investigations necessary to set up the estimates which have been submitted by the company.

(6) The company has now submitted a revised proposal. The main differences between this proposal and the one which was originally considered are:

- (a) Inclusion of pre-contract fee of \$20,000.
- (b) The inclusion of a fee of five per cent on machinery only for engineering services in connection with planning of the plant.
- (c) A reduction in the profit clause during the production period from ten to nine per cent of the costs.

(7) It is now thought that the new draft agreement compares favourably with the Fairchild's agreement recently entered into by the department, except that it will take the John Inglis Company a matter of six years to accumulate their profits, whereas the Fairchild's Company will accumulate their profits in a much shorter time.

The CHAIRMAN: What is your question?

By Mr. McGeer:

Q. The question is, was that the basis upon which sub-section (1), paragraph 3, was included in the contract?—A. I find that question rather difficult to answer in specific terms. I did not see this report of the master general of the ordnance. I got my instructions from the interdepartmental committee, and what reasons they had for the incorporation of this clause, Mr. Elliott can probably answer.

The CHAIRMAN: As I suggested, that question should have been addressed to Mr. Elliott and not to Colonel Orde.

By Mr. Homuth:

Q. Had this contract been given to an established firm in Canada you would not have had the preliminary expenditure of \$20,000?—A. I cannot answer that, Mr. Homuth.

Mr. SLAGHT: I suggest you would have had a great deal more, because there is no firm in Canada equipped in the mildest degree to manufacture Bren guns.

Mr. HOMUTH: Wait a minute.

Mr. ANDERSON: No.

Mr. McGEER: Let me put this question.

Mr. HOMUTH: It would be a good idea to bring some evidence here to that effect.

The CHAIRMAN: I submit to the hon. members for Waterloo South and Parry Sound that that question should be directed to Mr. Elliott and not Colonel Orde. I do not believe he can answer that question.

Mr. McGEER: Let me put this question to you.

By Mr. McGeer:

Q. As a matter of fact, sub-section (1) of clause 3 does not go as far as this recommendation of the master general of the ordnance?—A. As the recommendation that appeared in that memorandum, no, it certainly does not.

Q. It was modified again as you finally drafted the contract?—A. The clause as I drafted it certainly does not go as far as the recommendation of the master general of the ordnance. What transpired between that memorandum of Major General Caldwell and the instructions that I got to incorporate this clause is something entirely outside my knowledge.

By the Chairman:

Q. From whom did you get the instructions?—A. The deputy minister or the master general of the ordnance.

Q. Did these instructions come from the interdepartmental committee?—A. I would imagine they did.

Q. Do you know whether they did or not?—A. I cannot say at all.

By Mr. MacInnis:

Q. I think we are using a lot of time on a question that does not at the moment arise. If I understand Mr. McGeer aright, his point is that this was a customary clause in contracts; that preliminary expenses are a customary thing in contracts. I believe that is all we are concerned with now. What Mr. McGeer is trying to do is to justify this particular expenditure of the \$20,000. We are not concerned with that at the moment. We will arrive at that at another time and then Mr. McGeer's exhibit will be in order. I think we should abide by your ruling and get away from that point.

The CHAIRMAN: I think we can close that point now.

By Mr. Isnor:

Q. I should like to ask the witness a question in connection with clauses 1 and 5. Someone raised the point a little while ago that ten per cent would be paid on the \$20,000. I should like to clear that up. Has clause 5 any direct bearing on 1?—A. Not at all.

By Mr. Green:

Q. In paragraph 3 (e) (2) on page 2, we find a clause which seems to cover purchases made for the Inglis company from other firms. Is that the idea?—A. Yes, the makers of gauges and ordinary machine tools, articles like that.

Q. The idea being they are allowed to go out and purchase things in the market?—A. If you turn back to paragraph (b) of this you will see before they can make a purchase even of a screwdriver they have to get our approval.

[Colonel R. J. Orde.]

By Mr. MacNeil:

Q. There was a question raised a moment ago with regard to subsection 5. Subsection 5 says: "ten per cent of such things as are mentioned in paragraph 4 of this section." Paragraph 4 relates to the costs set forth in section 5. Now section 5 lists such items as cost of engineering services, wages and salaries of indirect labour, salaries received by executive officers and others not otherwise provided for in the contract, and so on.

The CHAIRMAN: What page are you reading from?

Mr. MACNEIL: I am referring to different pages. Clause 5 sets forth the costs referred to in section 4. Section 4 is referred to in clause 5, on which the question is directed. Is it not fair to assume that ten per cent would be paid on the cost of engineering services, wages and salaries of indirect labour, salaries received by executive officers, and would not that include the period of the preliminary investigation?

The WITNESS: No.

By Mr. MacNeil:

Q. Is there anything in the contract, any provision, against the payment of ten per cent on this \$20,000 involved in the preliminary investigation?—A. Clause (1) of paragraph (e) stands by itself; that is prior to the commencement of the contract. The ten per cent provision in clause (5) is only payable with respect to matters which came into being after the contract was signed, not before.

By Mr. McGeer:

Q. In other words, sub-section (1) of paragraph (e) puts a top limit on all preliminary investigations, engineering expenses involved in setting up the plant?—A. Prior to the signing of this contract.

Q. The other provision deals with the question of engineering problems involved in actual production of the gun?—A. No, in actually installing the machinery in the plant in the preparatory period. The remaining clauses, (2), (3), (4) and (5), deal with the preparatory period; it is the period commencing on the date the contract was signed and expiring on the date production commences.

By Mr. Homuth:

Q. Had this contract not be signed, Colonel, the government would have been liable to pay the \$20,000 for the preliminary expenditure?—A. No, not unless they had agreed to pay. The contractor took all the risks himself until we agreed to pay him something.

By Mr. McGeer:

Q. If you had set up the plant yourself your preliminary expenditures for setting up the plant would have involved an engineering fee of ten per cent?

Mr. NEEDHAM: May I ask one question? A lot has been said various ways with regard to this \$20,000. Is the government liable now for the ten per cent?

The WITNESS: No, sir.

By Mr. McGeer:

Q. The other point that has been raised and which is pertinent is this: someone has suggested that although the government is buying the machinery they are liable for the ten per cent on the machinery as well?—A. Machinery is definitely excluded from any compensation of ten per cent, or allowance at all.

By Mr. MacNeil:

Q. That exemption is here in the contract, but I cannot discover in the contract where that exemption applies to the \$20,000?—A. Clause (1) stands by itself.

Mr. FACTOR: It has no reference to clause 5 at all.

Mr. MACINNIS: Clause 5 must be taken with section (e).

Mr. FACTOR: It has no reference to section (e) at all.

Mr. BROWN: In the manner here set forth.

By Mr. McLean:

Q. The ten per cent is only paid on the items enumerated in section 5, clause (e), and that includes the tools, dies, jigs and gauges, nothing else that I can see.—A. Yes.

Mr. FACTOR: It is 1 o'clock.

By Mr. Homuth:

Q. The ten per cent is paid to the John Inglis Company on anything, because the government gives them the right to purchase equipment for the factory for the production of Bren guns?—A. No, sir, except machinery.

Q. Anything that the government gives them the right to buy?—A. Except machinery.

Q. The government is buying all the machinery?—A. The John Inglis Company might buy something that fell in the category of machinery, but there would be no ten per cent on that.

Q. If the government buys all the machinery, the John Inglis Company has no machinery?—A. The government is buying all of what you might call the basic machinery. Let me give you a very concrete illustration, which arose the other day. You know these automatic drills and screwdrivers—I have forgotten what you call them—

Mr. BROWN: Milling machinery.

The WITNESS: No; it is a drill and a screwdriver, something about that big (illustrating). The operator holds it this way and there is a rotating drill. Now, the question came up as to whether that was a tool or a machine, and we took the stand it was a machine and therefore we did not pay the ten per cent on it.

By Mr. McGeer:

Q. A pneumatic drill?—A. An electric drill.

By Mr. Bercovitch:

Q. You did not pay ten per cent on that?

By Mr. MacInnis:

Q. You bought it but did not pay the ten per cent?—A. We paid the cost.

The CHAIRMAN: I want to inform the committee that we have copies of the exhibits in room 504. We have, as a matter of fact, ten copies of these exhibits. The matter was discussed by the subcommittee yesterday and it was decided that owing to the information that these exhibits contain, if any member wants a copy of these exhibits to take to his room, he will have to sign for it with the clerk, so that the clerk will know where they are. We do this because these exhibits should not be left open in your rooms and should not be left where they may get into the hands of somebody whom the members would not want to see them. We did that because they contain information pertaining to the international situation and information that has passed between the British government and the Canadian government.

[Colonel R. J. Orde.]

If you cannot examine them in room 504 and have the staff there copy what you want, the staff will give you the copy and you can sign for it so that we will know where it is and be able to get it back. That was decided by the subcommittee yesterday, and I would ask the members to please follow that procedure.

May I suggest, in view of the fact that several controversies arose this morning, we hold our next meeting at 11 o'clock next Tuesday morning, in order to give the members an opportunity to examine these exhibits, knowing that we will conclude with Colonel Orde and that Mr. Elliott will come on as the second witness? I think if we understand that now, and if you examine all the evidence and the exhibits with the assistance of the staff, we will be able to go ahead without the controversies that arose this morning.

May I add just one more point? I am quite satisfied that it is the desire of every member of this committee to procure all the particulars and evidence that the committee should have and to conduct the proceedings with as little duplication and as little conflict or cross-fire as possible. I ask you all to give me your co-operation in that respect.

Is it agreeable that the committee adjourn now until next Tuesday at 11 o'clock?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: May I say to the subcommittee that if we find it necessary we will call the subcommittee together for a meeting to-morrow afternoon at 2.30 for just a few minutes.

Mr. GREEN: You will let us know?

The CHAIRMAN: Yes.

(At 1.10 p.m. the committee adjourned to meet again at 11 a.m. Tuesday, March 28, 1939.)

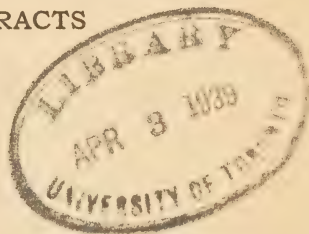
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SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 3



TUESDAY, MARCH 28, 1939

WITNESS:

Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

MINUTES OF PROCEEDINGS

TUESDAY, March 28, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Bercovitch, Bertrand (*Laurier*), Black (*Chateauguay-Huntingdon*), Blanchette, Bothwell, Brooks, Brown, Douglas (*Weyburn*), Factor, Ferland, Fleming, Fournier, (*Maisonneuve-Rosemount*), Francoeur, Fraser, Glen, Golding, Green, Héon, Homuth, Kennedy, Leader, MacInnis, MacNeil, McDonald (*Pontiac*), McGeer, McLean, (*Melfort*), McPhee, Marshall, Needham, Patterson, Purdy, Rickard, Stirling, Taylor (*Norfolk*), Turgeon.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

In compliance with instructions received at the previous meeting, the clerk tabled a copy of "Schedule 1" referred to in section 2 of the Bren machine gun contract.

The Chairman stated that the sub-committee on agenda had met on Thursday, March 23, and had authorized him to suggest to the members of the Committee a uniform procedure to be followed in requesting the production of documents and in referring to documents already before the Committee.

Examination of Colonel Orde was continued.

Ordered,—That the clerk be instructed to procure the following information in connection with expenditures made under the terms of the Bren machine gun contract:—

1. *At Mr. Homuth's request:* Itemized statement of all vouchers.
2. *At Mr. Green's request:* (a) Actual expenditures to date under section 3, paragraph (a), clause 1; (b) Amount the government has paid, or is responsible for, under section 3, paragraph (g), for conversion of plant and (c) Salaries of executive officers and others of the John Inglis Company approved by the Department as chargeable to the contract.

The Committee adjourned until Thursday, March 30, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

TUESDAY, March 28, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order we shall proceed.

Before proceeding with Colonel Orde I should like to say a few words. You remember at the last meeting there were some questions in connection with how far the witness should go in putting extracts from the evidence of the Davis commission on the record. Your sub-committee met on March 23. Probably I had better read the conclusion they came to, and it will clear up the situation.

The sub-committee on agenda met on Thursday, March 23, and discussed procedure to be followed in the examination of witnesses.

The sub-committee has no desire to attempt to lay down any rule but authorizes me to express the request to the members of the committee that, in bringing documents forward, they should, as far as possible, endeavour to refer to the document before us, with the page reference, and leave discussion of it until a later time when argument is heard; and that, as far as possible, they endeavour to avoid reading into the record extracts from the document.

The sub-committee also suggests that any member of the committee desiring the production of vouchers covering specific expenditures prepare a list of his requirements and hand it to the clerk.

The reason for that last paragraph is this: I believe Mr. Homuth requested all receipts and vouchers in connection with the moneys paid on the contract to date. We found on investigation that that entailed the production of a truckload of receipts and documents.

Mr. HOMUTH: Could you not get a statement, Mr. Chairman, of them, and itemize the statement?

The CHAIRMAN: You want an itemized statement, or just the total?

Mr. HOMUTH: There would be no difficulty in making up an itemized statement.

The CHAIRMAN: We will endeavour to get an itemized statement. The witness this morning will be Colonel Orde.

COLONEL R. J. ORDE, recalled.

The WITNESS: Mr. Chairman and gentlemen, the concluding portion of my evidence on Wednesday last had to do with the question of departmental control over vouchers and expenditures; and it was suggested by one or two members of the committee that it might be of assistance if, when talking about the contract, I indicated the specific paragraph. That would save a certain amount of research and undue reading. In addition, that I indicate by reference to exhibits, the precise section, verifying the final document from the one that was first drafted in November, 1937.

Now, with regard to the contract itself, I am using the copy, for convenience, which is in the hands of the committee, so there will be no confusion with regard to page numbers. With regard to the preparatory period you will

notice from section 3 (b) that departmental approval is required for all purchases and all manufactures of machinery, tools, dies, jigs and equipment. That covers, what you might call, the material end of it.

By Mr. MacNeil:

Q. What kind of end?—A. The material side, as distinct from non-materials, such as labour and administrative costs and the like. Bear in mind, I am dealing with the preparatory period. With regard to the other expenditures, these are the ones which are not included in machinery, tools, dies, jigs and gauges. Clause (4) of section 3 (e), as Mr. Elliott explained the other day, applies to the preparatory period to the extent that they are applicable. The cost items in respect of the production period, which are set out in section 5 of the contract—and I won't labour the point now with regard to the preparatory period—gives the same degree of control which is exercisable in the preparatory period. Obviously, the same degree of control in the production period would be exercisable during the preparatory period.

That brings us down—

Q. Section 4 that you refer to relates to the preparatory period?—A. May I explain for the benefit of the committee that we have used throughout the contract the term "section" as the basic sections 1, 2, 3 and 4. Then, where there is a letter after the basic section we call that a paragraph; at the end of the paragraph where there is a number in brackets we call that a clause. In other words, the basis is first the section; the next subordinate to that, so to speak, is the paragraph, and the next is the clause.

Q. Clause (4)—A. When I speak of clause (4), I mean clause (4) on page 3, underneath paragraph (3), section (e).

Q. That applies to the preparatory period?—A. That applies to the preparatory period, because the whole of the section there relates to the preparatory period. If there is any confusion in the reference to sections, paragraphs and clauses, we might possibly clear it up.

Q. Then the costs in clause (4) are the costs as set forth in (5)?—A. Clause (4) of section 3 (e) applies to the preparatory period, the detailed costs entering into the production to the extent that they are applicable, the type of costs, rather, which would be incurred in production which would be applicable to the preparatory period, such as labour, administrative expenses and so on. To make it clear, Mr. MacNeil, possibly this might be an illustration: We might, instead of applying section 5 to the preparatory period by reference as we have done, have enumerated the whole again in connection with the preparatory period. Do you follow me?

Q. The costs enumerated in section 5 relate to the preparatory period as well as the production period?—A. As well as to the production period to the extent that a particular class of costs is involved in the preparatory period.

Now that brings us down to the production period, and the statement I shall make with regard to the control over the costs with respect to the production period applies equally to the control over these costs in the preparatory period. If you will turn to page 5 of your contract you will see section 4 which says that after the preparatory period has been completed the contractor "shall forthwith proceed with the manufacture of the said Bren gun, as provided in section 2 hereof, and the spare or component parts thereof. The price of the said Bren gun and spare or component parts thereof as ordered by the party of the first part shall be:—

(a) The sum of all costs, as hereinafter defined, properly incurred in connection with the manufacture of the said Bren gun and spare or component parts thereof . . .

[Colonel R. J. Orde.]

Now, we come down to section 5 which says:—

The costs referred to in section (4) (a) hereof shall consist of the following specific items . . .

and mark this “. . . to the extent that they are incurred in the performance of this contract.”

That is, all these itemized costs, running from the letter (a) to the letter (t) of the alphabet are limited in this way: first, that they must be properly incurred; secondly, that they are incurred in the performance of this contract, and properly incurred. In the practical working out of every one of the costs mentioned in section 5 the department exercises the fullest control. In effect and in practice, unrestricted, unlimited, with not exactly three exceptions—I do not know exactly how to describe it, but I can give it by way of an example. In every one of these items from (a) to (t), with the exception of items (d), (j) (l)—(j) (l) is on page 7—(k) and (m), the section, either specified in the particular item or under item (t) gives to the department the right of prior approval for concurrence.

By Mr. McGeer:

Q. Would you mind just enumerating these items in the contract, as to what they cover? I did not follow it. You have given the reference.—A. You mean the four exceptions?

Q. Yes, what are they?—A. I was going to deal with them now, Mr. McGeer.

Q. All right.—A. Item (d) relates to—

Q. Item (d)?—A. On page 6.

Q. The first one you mentioned?—A. That is the first one I mentioned. That refers to assessments under the Workmen's Compensation Act, and we might as well consider them both together because the same principle is involved. Item (m) relates to customs duties, sales and excise tax.

Q. (m) is on page?—A. Eight, sir. The department could not, as between themselves and the contractor fix the rates of assessment made under the provincial Workmen's Compensation Act, nor could the contractor fix the rate of customs duty, sales tax and so on. The department has direct control over the basis upon which these assessments are levied. For example, in the case of labour, the classes of labour and the wage rates are, in paragraph (b) on page 6, fixed by the Department of Labour. You will notice there that the company “expressly agreed that the wages for labour employed in connection with the manufacture of the Bren gun shall in any case in which they shall exceed the rate set forth in exhibit ‘c’ hereto”—that is the exhibit determined by the Department of Labour—“and forming part of this contract . . . be subject to the approval of the Minister of Labour . . .” So also when we come to the customs duties which are mentioned on page 8 in item (m), the customs duties, sales, excise and other taxes levied on any material used in the construction of the Bren gun. We have under paragraph (g) on page 7 complete control over the amount of material and the cost of material purchased. So, as I say, lest there be any possible fine criticism that a specific item does not particularly specify that the crown has direct control over it, the practical effect is, with the exception of fixing the rate of customs duties and the rate chargeable under the Ontario Workmen's Compensation Act, we have complete control over the bases upon which they are computed.

Q. These items are not controllable by either yourself or the contractor? —A. No, of course not. The rate of sales tax, the customs tariff and the rate levied by the Ontario Workmen's Compensation Board are not under our control.

Now, with regard to (j) and (l) which deal with the reasonable travelling expenses of the parties of the second part, wherein it is not specifically specified that we have to give prior approval to

(l) some engineer of the John Inglis Company going to Montreal to see some particular tool or machinery or something like that, and in the case of the Bren gun tests, which I dealt with the other day, if the company wishes to have these included in the costs in the contract they must be shown in the monthly statement of claim, and that statement before it can be dealt with at all must be certified by our resident inspector. You will note the provision on page 9 of the contract.

By Mr. Homuth:

Q. If they wish to have them included in the costs?—A: Perhaps it was more of a slip of the tongue. Should they seek to have them included in the costs.

By Mr. Douglas:

Q. What do the travelling expenses cover, the production period as well as the preparatory period?—A. As a matter of fact, I cannot speak definitely there but from what I understand they are very, very small.

Q. They can be submitted for both periods?—A. Yes.

By Mr. Green:

Q. For example, we were told at the plant the other day that there were eight employees over in England who had been sent over there for training. There would be no check of their travelling expenses?—A. Yes, we have that. Actually, what happened in that case was this: they sought prior approval, because under this clause here it had to be reasonable expenses in connection with the production of the gun. It was not preliminary to the contract but expenses in respect to the preparatory period. Not only did they seek approval, but we laid down what they would get and how they were to account for it in the way of vouchers. I have actually seen that.

Q. Which paragraph of the contract provides for that?—A. That would be provided generally in the general provisions under clause (4) of paragraph (e) section 3, on page 3 of the contract.

By Mr. McGeer:

Q. Would that come under the general provisions of (e), "planning, installing and other services including those of a preliminary nature, required to make the plant fully equipped for the production of the said Bren gun, as set out in sections 1 and 2 of this contract. . .?"

Mr. GREEN: He says under clause (4).

The WITNESS: Clause (4) of paragraph (e).

By Mr. Green:

Q. Paragraph (3) (e)?—A. Such other costs as set out in section 5.

Q. What provision in the contract gives you the right to approve or disapprove of these expenses?—A. Because, Mr. Green, if the company seeks—we are talking at the moment on a rather academic phase, because what actually happened was that the company sought approval of sending a certain number of men over to Enfield, and we approved of it, and approved, as I say, of the manner in which they would be reimbursed and the payment of expenses and the submission of vouchers and so on. But let us assume that the company had, without any reference to us at all, sent these people over—is that really along your question?

Q. No; it appears to me that the contract does not force the company to get approval of travelling expenses before they are incurred.—A. No, that is perfectly true, but the company in order to obtain reimbursement for

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the travelling expenses must include them in its monthly claim for payment. Do you follow me? That monthly statement which the company makes up as of the end of every month for submission to the department for progress payment, must be certified by the department's resident inspector in Toronto, together with the certificate of the local treasury officer that these expenses have been incurred and were incurred directly in connection with the performance of the contract.

Q. Why was not clause (j) included in (t) on page 9?—A. We might have erred. The reason for it, rightly or wrongly, was that these travelling expenses were not going to be of a continuing character once the plant got into production, once the preparatory period was over; therefore there would be no necessity for any travelling expenses and it would not form part of the general overhead.

Q. If you are going to have people run over to England all the time the travelling expenses would amount to quite a lot.—A. Oh, quite. I would prefer the dominion officer to answer that. My information was that was not anticipated and that there was no necessity of bulking the travelling expenses in the class covering general overhead such as clause (e) does. That is the reason for it.

By Mr. Homuth:

Q. The general explanation, Colonel Orde, was that expert workmen had to come out from England to set up the machinery and get this plant started in the making of Bren guns. Mr. Gillespie is one?—A. Mr. Gillespie is an employee of the Inglis company. He is no longer—

Q. He is loaned by the British War Office?—A. No, not loaned; he is retired. He is not loaned there. He was retired from the British government service, and he is actually an employee of Inglis.

By Mr. McGeer:

Q. He is loaned in this way, his retirement period is not yet reached, and although he has come from the British War Office to the Inglis company, his retirement period is being carried on?—A. He is on retirement leave, or something like that.

Q. In that sense he is loaned?—A. Yes.

By Mr. Homuth:

Q. Now, then, we have Mr. Gillespie and one other that I know of, and I do not know how many more. We now find a number of men from this Inglis plant have gone to England to learn how to make Bren guns.—A. I have no detailed information; that would be a matter for one of the officers from the ordnance branch to answer.

By Mr. McGeer:

Q. That is a fact. I believe we can agree on that.—A. I know that men are over in England; when they went over or why they went over I cannot say.

By Mr. Brooks:

Q. Might it not be a fact that these eight men are not only studying Bren guns but Enfield rifles and how to make Enfield rifles?—A. I cannot answer that. If you call one of the officers from the ordnance branch he will give you the precise answer, I believe.

By Mr. McGeer:

Q. In any event, the travelling expenses and the amount are subject to supervision by the Department of National Defence?—A. Undoubtedly.

By Mr. Bercovitch:

Q. And the approval of the department was obtained before these travelling expenses were incurred?—A. That is my information.

Mr. GREEN: That approval did not need to be given.

Mr. BERCOVITCH: I do not believe it did, but it was given just the same.

By Mr. MacNeil:

Q. The contract does not demand prior approval?—A. The contract does not demand prior approval, but we have to approve the particular monthly statement before they get a sou, and we have complete control there whichever way you look at it.

By Mr. McLean:

Q. The contract demands subsequent approval before payment is made?—A. Before payment is made.

By Mr. MacNeil:

Q. Therefore, under the terms of the contract they could incur these expenses and submit a claim for reimbursement and you would have no alternative but to make reimbursement?

Mr. McGEER: The very opposite is the fact.

THE WITNESS: It is just the opposite. If we consider these expenses were not properly incurred and were excessive we have complete power to refuse approval.

By Mr. MacNeil:

Q. In whole or in part?—A. In whole or in part; we have complete discretion.

By Mr. MacInnis:

Q. The economic performance of the contract depends on the rigidity of the inspection by the department?—A. By the department, the resident inspector who checks. We have an inspector up there.

By Mr. Factor:

Q. I think Mr. Elliott told us in his evidence that no item is paid until it is approved by the Department of Finance?—A. That is the practical result. I was asked to itemize in some detail, and that is what I have attempted to do.

By Mr. McGeer:

Q. You have dealt with that?—A. I have dealt with that, with four items.

By Mr. Green:

Q. Under which item of the contract can you refuse to pay travelling expenses if approval is not obtained?—A. Section 6.

Q. That applies only to the production period?—A. Yes, but the same principle holds good there in respect of the preparatory period.

Q. Why was it not put in there?—A. How do you mean?

Q. Section 6 does not refer to the preparatory period at all.—A. No, that is perfectly true; but will you look at paragraph (f), Mr. Green, on page 3. It is provided there: "The party of the second part shall, at the expiration of each month during the period while said machinery, tools, dies, jigs, and gauges are being received, completed, manufactured and installed as hereinbefore mentioned,

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submit to the party of the first part statements showing the costs incurred by it. Such statements shall be subject to checking and verification forthwith by the authorized representative of the party of the first part, and, upon receipt of such statements certified by such representative, the party of the first part undertakes and agrees to remit promptly to the party of the second part two-thirds of the full amount of the costs. . .” and so on.

Q. That only gives you the right to check and verify; it does not give you the right to say that man should not have incurred travelling expenses.—A. Yes, it says, “if they are properly incurred.” He won’t certify them unless he is of the opinion that the expenses have been properly incurred.

By Mr. Homuth:

Q. What clause is there in the contract, Colonel Orde, which relates to the amount of expenditures in the preparatory period?—A. You mean, limiting the expenditure to a definite amount?

Q. Yes.—A. There is no limitation. There is no clause limiting the expenditure to any set amount at all, Mr. Homuth.

By Mr. McGeer:

Q. There is complete control?—A. I was choosing my answer rather carefully there. There is the provision that the department has complete control with regard to the limitation of expenditure.

Q. With regard to the question that Mr. Green asked, paragraph (f) on page 3 says that without verification of the amount there is no obligation on the part of the department to pay at all.—A. Not only must it be verified but it says here, “and upon receipt of such statements certified by such representative.” There has to be checking, verification and certification by the department’s representative, and if he does not certify there is no payment.

Q. And there is no obligation on the part of the department to pay without certification?—A. Of course not.

By Mr. Green:

Q. I may be wrong; it is a matter of interpretation, but on page 7 we find that the contractor is entitled to reasonable travelling expenses, and then all that the department can do in this preparatory period is contained on page 3, clause (f). Therefore the department can simply check and verify.—A. No.

Mr. McGEER: And refuse to pay.

By Mr. Green:

Q. Under the contract it must be shown that the expense is reasonable. There is the power of checking and verifying, that is all.—A. You have missed a further point, if you don’t mind my saying so. These expenses must be certified by our representative as having been incurred for the purpose of making the plant capable of producing a Bren gun.

Q. It does not say that in the contract.—A. Yes.

Q. Whereabouts do you find that?—A. On page 3 of the contract you will find this:—

“As compensation for the said machinery, tools, dies, jigs, gauges, and for engineering, planning, installing and other services including those of a preliminary nature, required to make the plant fully equipped for the production of the said Bren gun . . .”

the department shall pay as follows—

By Mr. Brooks:

Q. Who decides whether they are reasonable or not, the department or the men themselves?—A. That is a matter of administration. The contractor

gives the right to the department, whatever official it may be in the department, to determine whether these expenses have been incurred, in fact, and secondly, whether they were essential in order to make the plant fully equipped for the production of the Bren guns, and whether the amount is reasonable and proper.

By Mr. McGeer:

Q. That is, you can refuse to certify on the ground that they were unreasonable?

Mr. McLEAN: Or non-essential.

By Mr. McGeer:

Q. Let us deal with one point first. You can refuse to certify on the ground that the expenses were unreasonable?—A. Precisely.

Q. Unreasonable in amount and unreasonable because they were unnecessary, or for any other reason?—A. Of course.

By Mr. Bercovitch:

Q. Refusing to certify to the amount has, as a necessary corollary, the fact that you would refuse to pay?—A. That goes.

By Mr. Green:

Q. It might mean arbitration.

Mr. BERCOVITCH: It might mean anything.

Mr. McGEER: Then the question would come up, the contractor has the right to bring an action in a court of arbitration against the unreasonable action on the part of the department officials. Nobody would object to the department not paying an unreasonable expense, and nobody would object to their paying a proper amount that the court found reasonable.

Mr. BERCOVITCH: The department could not refuse to pay what the court expresses must be based on something.

Mr. McGEER: That is what we have to do when the court makes a finding.

Mr. BERCOVITCH: That is why we have courts.

Mr. McLEAN: That is why we have lawyers.

Mr. BERCOVITCH: That is not why.

Mr. McLEAN: No?

The WITNESS: This more or less bears on the future of the items, cost situation, both with respect to the preparatory period and the production period.

Then we come to the general clause dealing with the degree of protection. I find that Mr. Elliott touched on this as fully as I can, the other day. I am referring to sections 8, 11, 14 and 17 and anything I can say would be a mere repetition of what Mr. Elliott pointed out. This brings me to the other point which certain members of the committee asked me to deal with, and that is, as I said earlier, to trace in a very brief way by reference to the exhibit numbers so that they will be available for quick reference, the evolution of the contractual instrument.

By Mr. Green:

Q. Before we get down to that had we not better finish going over the contract?

Mr. McGEER: What else is there?

Mr. GREEN: We had only got to paragraph 3 (e) the other day.
[Colonel R. J. Orde.]

Mr. McGEER: I quite agree that we should finish the contract, if there is anything you wish to go into. What Colonel Orde has said is that as far as his general review of the contract is concerned, subject to examination, there is nothing more he can give without repeating the evidence of Mr. Elliott.

By Mr. Green:

Q. According to page 3, is the contractor paid for the repairs he makes to the Ross rifle machines; if so, under what paragraph is payment provided for?—A. I do not know, myself, whether he has carried out any work in connection with the refurnishing or restoration of the Ross rifle machinery, or whether he has been paid for it.

Q. I think it is common knowledge that he is repairing these machines?

By Mr. Factor:

Q. Subsection (i), on page 7, I think, touches that:—

The cost of necessary maintenance, repairs and minor alterations to buildings, machinery and equipment; all subject to the prior written approval of the party of the first part.

A. I was going to mention that clause, Mr. Factor; also, if it did not fall within paragraph (i) of section 5, it would undoubtedly fall under paragraph (f) of section 5, at the bottom of page 8.

By Mr. Green:

Q. Just what items are covered by section 4 on page 3? I wonder if you would go over them?—A. I must confess that I am not a technical man. I cannot say which of these items, (a) to (t) would represent the actual clauses of expenditure or cost incurred in making the plant suitable for the production of the Bren guns. I can guess at it.

Mr. BERCOVITCH: Did you refer to page 3, Mr. Green?

Mr. GREEN: Clause 4.

By Mr. Green:

Q. In drawing up this contract you must have had in mind how those items were to be determined, and who would determine them?—A. The technical officers would determine which of these items, all set out in section 5, would, by virtue of clause 4, paragraph (e) be applicable or chargeable in the fulfilment by the contractor of his obligation up to the commencement of manufacture.

Q. I suppose it was considered that all of these items in paragraph 5 would be chargeable in the preparatory period?—A. Undoubtedly, the bulk of them would, Mr. Green,—materials, light, heat, and so on.

By Mr. MacNeil:

Q. Engineering services?—A. Engineering services, materials, certain customs duties probably, fire insurance, and so on.

By Mr. Factor:

Q. They are all set out?—A. They are all set out in section 5, and it was merely to avoid repetition. We thought it a neater way of doing it.

By Mr. Green:

Q. If you had listed them in (e) 4, you would have listed the whole lot?—A. I should think we would have listed the whole lot. We had to have it wide enough to cover any contingency.

By Mr. MacNeil:

Q. When you come to the last sentence of clause 5, on page 3, it reads:—

Ten per centum of such costs as are mentioned in paragraph 4 of this section.

By Mr. Green:

Q. You get ten per cent of the whole works?

By Mr. MacNeil:

Q. Ten per cent is paid on the cost of engineering services, because it is not specifically exempted on page 5?—A. That is right; ten per cent on all the costs incurred in the preparatory period; that is, after the date of the signing of the contract, except on the cost of machinery.

Q. You get ten per cent of the cost of engineering services incurred during the preparatory period?—A. During the preparatory period. But that does not include the period before the date of the signing of the contract mentioned in clause 1 on page 3.

Mr. HOMUTH: That is the \$20,000 item.

By Mr. MacNeil:

Q. In the terms of the contract that is not exempt? Can you point out wherein it is exempted?

Mr. FACTOR: That was dealt with.

Mr. MACNEIL: It was not made clear.

Mr. FACTOR: I think it was made as clear as possible, that the ten per cent does not apply to clause 1 of the \$20,000 item.

The CHAIRMAN: Mr. Factor, I think Colonel Orde can probably answer Mr. MacNeil's question in one sentence.

The WITNESS: May I have the question again, Mr. MacNeil?

By Mr. MacNeil:

Q. Where, in the terms of the contract, is that particular section exempted, the application of the ten per cent?

By Mr. McGeer:

Q. Might I suggest the question be made clearer. Wherein is the right to secure ten per cent of the cost of engineering incurred prior to the signing of the contract exempted? Is that what you are after, Mr. MacNeil?

Mr. MACNEIL: That suits me.

By Mr. McGeer:

Q. Did you get the question?—A. Yes.

Q. The \$20,000 mentioned as being allowable is the top limit?—A. Prior to the execution of the contract.

Q. Where is the provision in the contract that would permit the department to refuse to pay ten per cent on that?—A. In respect of engineering services performed prior to the execution of the contract—that is what clause 1 deals with—there is no provision in any place in the contract which would enable ten per cent to be paid on those expenses.

Q. Looking at it from the legal point of view, there is a provision made which limits the amount which the contractor can get for all preliminary expenses, including engineering services, up to the time of the signing of the contract?—A. Precisely.

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Q. And that in itself excludes those expenses from being included in any other section of the contract?—A. That was the intention.

By Mr. Bercovitch:

Q. And that is a proper interpretation?—A. That is what the contract says.

By Mr. Homuth:

Q. Supposing the preliminary expenses amounted to \$16,000, would it be possible for them to add \$1,600 and make it \$17,600?—A. No, sir.

Mr. GREEN: Do we not actually get the full \$20,000?

Mr. McGEER: That is not true. Nobody has been paid anything.

By Mr. MacInnis:

Q. What is the explanation of clause 1, paragraph (e) on page 3?

A sum not exceeding \$20,000 in respect of actual cost of preliminary investigation, planning and engineering services carried out by the party of the second part prior to the execution of this agreement as evidenced by vouchers or other proof in support thereof satisfactory to the party of the first part.

Is that not included in the compensation mentioned in paragraph (e)?—A. It is included in the compensation. If you ask me why that clause was put in, I would prefer to have that question answered by those who were negotiating the arrangements with the John Inglis Company. If you ask me what the clause was intended to mean, it was intended to provide for pre-contractual—for expenses or costs incurred by the contractor in the way of research and investigation before he ever signed the contract.

By Mr. McGeer:

Q. Would it not be more correct to say, Colonel Orde, that the clause limits the amount of preliminary expenses to a top limit of \$20,000, subject to such amounts within that \$20,000 as may be verified as reasonable and proper?

Mr. FACTOR: Not only that, but the clause distinctly says: "as evidenced by vouchers or other proof in support thereof satisfactory to the party of the first part."

Mr. McGEER: I should like to get an answer to my question.

By Mr. McGeer:

Q. Would it not be correct to say that this clause was included in the contract to limit the amount of preliminary expenses to \$20,000, and to limit that amount of \$20,000 as a maximum?—A. One thing further. It was put in to make allowance for his pre-contractual expenses. Whatever those pre-contractual expenses may have been, they would be limited in any event to a sum not exceeding \$20,000, and whatever expenses were incurred within that limitation all had to be supported by vouchers or other proof satisfactory to us. There was no ten per cent or any profit payable on that.

Mr. GREEN: These expenses were all incurred over a year ago. Surely it is possible for the committee to get a statement showing what has been paid or what is due under that item.

Mr. McGEER: I think that will come in the statement of account that has been requested.

The CHAIRMAN: That information will be tabled.

Mr. GREEN: There is no statement ready yet.

Mr. McGEER: I do not think so; I inquired for it this morning.

By Mr. Douglas:

Q. The fact is that if clause 1. had not been inserted there would be no provision for paying pre-contractual expenses at all?—A. No.

By Mr. Brooks:

Q. Is this not a pretty exceptional clause for a contractor to sign? Is it in your other contracts for the manufacture of shells, aeroplanes and other munitions?

Mr. FACTOR: Did we not agree at the last meeting that the reason for inserting that clause should be given by another officer who has more knowledge of these clauses than has Colonel Orde?

Mr. BROOKS: I am asking if it is not an exceptional clause. Colonel Orde is a legal authority in drawing up these contracts. All I am asking him is whether or not it is an exceptional clause.

The WITNESS: That is a rather difficult question to answer. In the form in which it appears, it is somewhat exceptional, but in two other contracts we have made provision whereby the contractor would be allowed preliminary legal expenses incurred prior to the signing of the contract.

By way of an example, one aircraft contractor, who is building a certain type of aircraft at the moment, had considerable difficulty in negotiating a licence from the English patentee. We will call it the "X" company in England. This company owned the patents for this type of aircraft. They could only be built upon a licence being given by the patentee to this particular contractor here in Canada, and he had a very difficult time and a rather costly experience with lawyers in England, also here in Canada, in getting a licence which was suitable to meet Canadian conditions.

By Mr. Brooks:

Q. He did not have the Canadian government backing him, as in this case, to obtain the licence?—A. Oh, well, that is a matter—

By Mr. McLean:

Q. Is not the real answer that an exceptional enterprise justifies exceptional conditions? I do not ask you to reply to that.

By Mr. Brown:

Q. This clause covers a wider range of expenses than any similar clause in any other contract; is that right?—A. It does.

By Mr. Green:

Q. The other contracts merely provide for legal expenses?—A. That is right. Now, may I proceed?

By Mr. MacNeil:

Q. Just make clear on what the ten per cent is paid in the preparatory period—the pre-contractual period.—A. In the pre-contractual period there is no ten per cent payable.

Q. On anything?—A. On anything.

By Mr. Glen:

Q. It is covered by the \$20,000—A. It is covered by the \$20,000. In respect of the preparatory period ten per cent is payable on everything except the cost of machinery; and in the same manner on production.

[Colonel R. J. Orde.]

By Mr. Bercovitch:

Q. When you speak of the preparatory period you mean after the contract had been signed—A. The period between the date of the signing of the contract and the date manufacture commences. Pre-production period would be a better description.

By Mr. McGeer:

Q. In connection with clause 1, paragraph (e) of section 3, would you say that that was an exceptional provision in a contract of this type, where you are starting on the production of a thing that has not been produced before?

Mr. GLEN: And where a patentee is involved.

By Mr. McGeer:

Q. And where a patentee is involved?—A. As this is the first contract of its type, I cannot say whether it is exceptional or not; but we have accepted the principle in two other contracts, where we allowed the legal costs which were the actual expenses involved.

Q. What I had in mind was the report which I think Colonel Dewar made, wherein he pointed out that if you set up a plant of this kind yourselves there would be a planning and engineering fee of possibly ten per cent on the total cost. You remember that?—A. I have seen the memorandum from Colonel Dewar to that effect.

Q. What this does is to limit that general fee to a very much smaller amount?—A. It certainly limits it, and limits it, according to my understanding of Colonel Dewar's memorandum, to an amount very, very much less—only a small percentage of what Colonel Dewar considered would have to be paid if we were proceeding ourselves.

Q. There is nothing exceptional about a contract of that kind, is there?—A. Nothing exceptional. It strikes me as being eminently reasonable.

Mr. DOUGLAS: Mr. McGeer keeps on saying that this clause limits it. It should be said first, that it provides for it. If it did not provide for it, it could not limit it.

Mr. McGEER: I think if you would look at paragraph (s), you would find there that if paragraph (l) were not inserted there would be the privilege of allowing claims for reasonable amounts.

Mr. DOUGLAS: Not pre-contractual.

Mr. McGEER: Yes.

By Mr. Green:

Q. I suppose you will not dispute the fact that it is a very far cry from paying legal expenses to providing for both the costs of planning and engineering services?—A. I would not say it was a very far cry, Mr. Green, because the principle we followed in those other two contracts was precisely the same as we followed here. They were pre-contractual. We made provision for paying the amount actually incurred by the "X" company in its pre-contractual negotiations with the English patentee.

Q. Yes, but the cost here was not incurred in negotiating with the patentee; the British government did that negotiating. The cost was incurred in regard to the Enfield plant.—A. I am only saying that it was the principle of allowing pre-contractual costs.

Mr. McLEAN: On a point of order, Mr. Chairman, the questions are in connection with engineering and technical services. I understood the witness was here to give the committee his legal interpretation of this contract.

The CHAIRMAN: I think the information Mr. Green is trying to procure is whether that clause has been included in any other contracts embodying the same scope. Is that correct, Mr. Green?

Mr. FACTOR: There has not been a similar contract made. As pointed out by Mr. McGeer, if the government had established its own plant to manufacture the Bren gun there would have been planning and engineering services to be paid for.

The CHAIRMAN: But Mr. Green goes further in his question, if I understood it correctly.

Mr. MCPHEE: We will never get through with this investigation unless we follow on orderly routine. The last day we took up the whole morning discussing the very same matter. If we are going over it the next day and the next day, we will never get through.

Mr. McGEER: Mr. Chairman, I think on points that are important the committee should not be restricted in its discussion. I think that important matters should be determined to the satisfaction of everybody. When a desire of that kind comes up there should not be any limitation.

The CHAIRMAN: I should like to deal again with Mr. Green's point.

Mr. GREEN: I am through, Mr. Chairman.

The CHAIRMAN: Very well.

By Mr. Brooks:

Q. Were the other two contracts about which you spoke made before or after this contract was made?—A. Oh, before; long before, sir.

The CHAIRMAN: Referring again to Mr. Green's remark a few minutes ago in connection with going over the whole contract, I wonder if instead of re-hashing it, the members have any particular clauses with which they would like to deal? If so, I think we should deal with them.

By Mr. MacNeil:

Q. Referring to clause (g) on page 4, am I correct in assuming that the John Inglis Company may make application to the department for permission and, having gained such permission, may utilize this equipment for the manufacture of guns for the dominion government or for the use of other parties?—A. Mr. MacNeil, the clause speaks for itself. While the machinery is there, the clause provides it will be subject to our requirements. It goes on:—

—always provided, however, that the party of the second part shall have the right, but at all times subject to the requirements and consent of the party of the first part, to use or permit the use of the said machinery, tools, dies and equipment for purposes other than provided for in this agreement on payment to the party of the first part of a reasonable compensation.....

By Mr. McGeer:

Q. For instance, if the British government wanted more guns you could authorize the John Inglis Company to use this machinery to supply the requirements of the British government or any other friendly government?—A. Any other government, and we would fix the compensation payable.

Q. Subject to whatever compensation you determine as a department?—A. Of course. The clause speaks for itself.

By Mr. Green:

Q. Would that not mean, in the working out of the paragraph, that the machinery, which after all is being purchased exclusively by the government, is in that plant indefinitely?—A. Mr. Green, your guess is as good as mine.

[Colonel R. J. Orde.]

Q. Once the guns have been made for Canada, then the company has the right to continue the use of that machinery for other purposes. Not only have they that right, but they cannot prevent them using it.—A. No; far from it. We can take that machinery out at any time we wish.

Q. Why did you insert the words, "always provided, however, that the party of the second part shall have the right"? That certainly means something. The paragraph continues:—

but at all times subject to the requirements and consent of the party of the first part, to use or permit the use of the said machinery . . .

That means that some other person or firm might use that machinery.

The paragraph continues:—

—for purposes other than provided for in this agreement on payment to the party of the first part of a reasonable compensation. . . .

A. Because if we did not have some provision like that they might say, "This machinery is in our plant; we propose "to use it"; and we might have some difficulty. If it were not for that compensating provision to charge them for the use of it, or if it were not for the provision with regard to consent, we might be forced to consent.

Q. It certainly does not contemplate the removal of that machinery at the expiration of this contract.

Mr. BERCOVITCH: The whole contract contemplates that.

The WITNESS: May I draw your attention to the last sentence at the bottom of clause (g)?

In the event of the said plant, machinery, tools, dies, gauges and equipment are not being used for the purposes of the party of the first part, or for other purposes as above provided, and of either of the parties hereto deciding to dismantle and remove the said machinery,—

By Mr. Green:

Q. Yes, but that is subject to it not being used for other purposes?—A. Not at all.

Q. It says, "or for other purposes."

By Mr. Bercovitch:

Q. In other words, if both parties consent to using that machinery for other purposes, and by that I mean for the French government, assuming they are friendly, then it can go ahead and continue allowing the Inglis people to use that upon paying the proper compensation to this government?—A. That is it. To crystallize this paragraph, we wished to have provision that when the contract was finished we could, if we so desired, leave the machinery in the Inglis plant, paying compensation for the accommodation. If we left it there and it might be desirable to have it used for other purposes, then we gave to the Inglis company the right to use it, subject to our consent and subject to our requirements, upon payment of compensation.

By Mr. Green:

Q. You also provided that the government shall pay for its maintenance and care, so long as the same remains in its plant?

Mr. BERCOVITCH: It is their property.

The WITNESS: It is our property; we are keeping it. I said that we first made provision for keeping the machinery in the Inglis plant; then we had to pay compensation for storage, if you want to put it that way. They would have their employees there and would keep it in grease.

By Mr. Green:

Q. Yes, but supposing the Inglis company used the machinery for other purposes, then the government still has to pay for repairs?

Mr. BERCOVITCH: They cannot unless they obtain the consent of the government.

Mr. GREEN: If it is to be used to make additional guns for the British government, as I read clause (g), the Inglis company have the right to use the machinery for such a purpose and the dominion government pays for the care and maintenance of the machinery.

Mr. McLEAN: And collects a rental.

Mr. BERCOVITCH: No.

The WITNESS: The Inglis company comes to us and says, "Look here, will you consent to our using this machinery to make guns for the British government?" We say, "Yes, we do not need that machinery at the moment; you may do so; but as we are paying so much maintenance and storage rental there, if you use the machinery you will waive the charge of storage and maintenance—"

Q. Why did you not insert that?

Mr. BERCOVITCH: Wait until he finishes his answer.

The WITNESS: We would say, "You will have to pay us additional compensation to cover wear and tear and amortization." We have the right to fix any compensation.

By Mr. Green:

Q. Where is it stated that the John Inglis Company would in that event waive payment by the dominion government of the cost of maintenance?—

A. I am rather at a loss to answer your question. It does not specifically say that in such a case they would waive their maintenance charge, but it follows as a logical conclusion that when we have the right, the unrestricted right, to fix the amount of compensation which the Inglis company shall pay for the use of our machinery, we can make such terms as we see fit. We might say, "You will pay us so much out of that and we will pay you the maintenance charge"; and the end result would be the full amount of rental.

By Mr. MacInnis:

Q. Would it not be reasonable to assume, if the Inglis Company were to use this machinery for other purposes, as mentioned in the contract, that use might be subject to another contract between the John Inglis Company and the government or the party of the first part? Would that not be the most likely procedure?—A. That is a complicated question.

Q. I think it is very simple.

By Mr. McGeer:

Q. I think what Mr. MacInnis means is that if you are going to have the use of this machinery for the manufacture of guns other than are provided for in this contract, there must be another contract between the government and the John Inglis Company?—A. It says that.

Mr. MACINNIS: I think that takes care of Mr. Green's question.

Mr. GREEN: It is not clear to me.

By Mr. MacNeil:

Q. Is it possible, provided that consent is given, for the government of Canada to have a definite investment in the manufacture of armaments for other governments?—A. To have a definite investment?

[Colonel R. J. Orde.]

Q. For the manufacture of armaments for other countries?—A. It is possible.

Mr. FACTOR: The government owns the machinery and the government can do anything it likes with the machinery.

The WITNESS: It might allow the Inglis company to use that machinery for making anything.

By Mr. Factor:

Q. But it would have to be the subject of another contract?—A. Not only another contract between the Inglis company and the third party with whom the Inglis company was dealing, but it would have to be subject to a contract between the Inglis company and us with regard to compensation and terms under which the machinery would be repaired.

By Mr. Brooks:

Q. Take the case of the Ross rifle equipment which the government purchased originally to put in a government arsenal, supposing the government wished to manufacture rifles in the Lindsay arsenal, or some other arsenal, could they take the Ross rifle machinery from the Inglis company during the term of this contract, or would they have to allow it to remain with the Inglis company?—A. We can take the machinery out if we wish; it is our machinery.

Q. Under what provision?—A. By the same terms we have agreed with the Inglis company to provide for the installation of machinery capable of making a Bren gun. That is under section 3. And if we took some machinery out of the plant to-day, then the Inglis company comes along and says, "Look here, you have to put some more machinery back again to enable us to make these guns."

Q. You cannot take it out without compensating the Inglis company?—A. Oh, yes.

Mr. McLEAN: After the contract is finished.

The WITNESS: If we take the machinery out during the life of the contract, we have to put some other machinery back.

By Mr. Brooks:

Q. Or else compensate them? In other words, the Inglis company has full control of the Ross rifle machinery whether the government decides to manufacture arms with it or not during this contract, or else they must be compensated if it is taken out?

By Mr. McGeer:

Q. Can you conceive of any situation arising in Canada as a defence emergency where the demand for the manufacture of Enfield rifles in the Enfield plant would be so positive as to necessitate the dismantling of the Bren gun plant before these 12,000 Bren guns are made?—A. It is beyond my conception, Mr. McGeer.

Mr. McGEER: Surely the committee can keep the discussion within the limits of reasonable commonsense.

Mr. BROOKS: I have my doubts, after listening to the honourable member from Vancouver, occasionally.

Mr. McLEAN: Order.

By Mr. McGeer:

Q. Would it not be right to say that clause (g) could be summarized as vesting in the government absolute control over the machinery owned by the government in the government?—A. Complete and unrestricted control.

Mr. GREEN: Oh, well; not unrestricted control.

By Mr. Green:

Q. Colonel Orde, there is a provision in here toward the end of page 4, as follows:—

The party of the first part shall also pay the cost of such conversion of the plant of the party of the second part as in the opinion of the party of the first part necessary or advisable in making the said plant suitable for the carrying out of the terms of this contract, and so on.

We were told at the plant that quite a lot of work was being done in the commercial end of the plant, that is, that the Ross rifle equipment was being repaired there. We were also told that there were extensions being made to the plant for Bren gun purposes. I take it that all those expenses are chargeable to the Dominion government under this particular provision.—A. Not the construction of the new buildings. That does not come under "conversion."

Q. No, but this is the conversion of the building. We were actually shown where one of the buildings had been extended, and we were also shown that Ross rifle machinery was being remodelled in the old plant of the Inglis company. As I read this provision, all of those charges would be levied against the government or payable by the government?—A. To the extent that they were comprised within the conversion of the Inglis company plant. **That is a question of fact.**

Q. The conversion of the plant would include not only the Bren gun portion of the plant but the whole plant providing any part of it were used?—A. Are you referring to plant as including the Ross rifle machinery?

Q. No, I am referring to the plant of the Inglis company, not the machinery but the plant of the Inglis company.

The CHAIRMAN: I wonder if you could break that question down as between equipment and bulidings?

By Mr. Green:

Q. First of all, the building in which the Bren guns are being manufactured has been extended, lengthened and widened. We were told by Major Hahn that there had been about \$80,000 expended for that purpose. Under this provision I take it that the government is responsible for that work?

Mr. BERCOVITCH: What provision are you referring to?

Mr. GREEN: It is on page 4.

The WITNESS: I just want to have this perfectly clear so that there will be no misunderstanding. If you are talking, Mr. Green, of that \$80,000 building operation that went on there, that has not been approved by the department as a conversion of the plant.

By Mr. Green:

Q. What does that cover?—A. I am not familiar with the physical lay-out of the plant as much as I should be.

By Mr. Douglas:

Q. You say it has not been approved. Do you mean it has been rejected or that it has not yet been submitted for approval?—A. They have been told definitely, I understand, but again I would prefer you to get first-hand information, that it has not been approved. My understanding is that it is not regarded, either by the company or by the department, as a conversion of the plant.

[Colonel R. J. Orde.]

By Mr. Bercovitch:

Q. For Bren gun purposes?—A. For Bren gun purposes.

Mr. GREEN: Could we get a statement of the amount the dominion government has paid or is responsible for under that conversion provision?

The CHAIRMAN: We are getting that now at the request of Mr. Homuth.

Mr. GREEN: Could we get a statement of it under that particular section?

Mr. GOLDING: Mr. Chairman, that question could be asked of Major Hahn when he is here. He stated up there that that extension or conversion in that building was made at the company's expense. He said that up there, but you can get his answer when he appears.

By Mr. McLean:

Q. I should like to ask the witness this question: in your opinion, as a legal man, does the contract provide for the payment of the renewal additions to the plant to the extent of \$80,000?—A. That extension would be comprised and come within the scope of paragraph (1) of section 5.

Q. And compensation provided for the use of that?—A. The renewal value in respect of the portion would be paid.

By Mr. McGeer:

Q. The answer is very clear. It is found in the very provision that Mr. Green referred to. That is the answer to the question. Is not the power to refuse to pay found in that section of clause (g) which says that the party of the first part shall also pay the cost of such conversion of the plant of the party of the second part as is in the opinion of the party of the first part necessary or advisable in making the said plant suitable for the carrying out of the terms of this contract? You have the right there to say whether you will approve of such a conversion or not.—A. Of course, we have.

Q. Then it goes on to say:—

“ . . . but no such cost shall be repaid to the party of the second part, except such as has been given prior approval by the party of the first part.”

A. It gives us absolute and unrestricted control of the matter.

Q. The right to refuse to pay any cost of conversion of the plant?—A. Certainly, and that was the intention.

Q. In this particular matter, it is your opinion that no approval has been secured?—A. No approval has been secured at all.

By Mr. Green:

Q. It is a matter of record, it is not a matter of legal argument. But I should like to know whether any money has been paid or is payable for conversion of the plant under that provision? There is certainly clear proof to me that you have to pay the Inglis company something for conversion of the plant. I am satisfied if I can find out what has been paid or what has to be paid.

By Mr. Factor:

Q. If the Inglis company gets prior approval of the crown for such conversion then,—A. Then we pay the money.

Mr. GREEN: The government apparently approves, but whether it was formal or not I do not know.

Mr. McLEAN: As to whether or not anything is payable in the future, surely is not a question that Colonel Orde can determine at the moment.

Mr. GREEN: It might not be paid yet.

Mr. McLEAN: As to whether it becomes payable in the future or not is for the engineering staff to say.

The WITNESS: Exactly. The contract provides that they will get paid the costs of conversion which were considered reasonable and necessary, provided we give prior approval to it.

By Mr. McGeer:

Q. They cannot go ahead and make conversions without your approval and then present their bill and get paid?—A. Certainly not, and this was intended to be a bar to their so doing.

Q. Another protective provision?—A. Another protective provision.

By Mr. Green:

Q. The important feature of that provision is that the Inglis will be paid for converting the plant—

Mr. BERCOVITCH: If they obtain government approval it is only right they should be paid.

Mr. McGEER: It is a matter of interpretation. I would interpret that section legally the other way. I would say the main provision contemplated there was to prevent the government being saddled with any expense that the department itself had not controlled.

Mr. GREEN: If the government did not want to have any expense in converting the plant they should have said that the Inglis company was not to get any money for converting the plant. Instead of that they provide that they should get paid—

Mr. McLEAN: Under certain conditions.

Mr. MACNEIL: It reads: "The party of the second part shall also pay for . . ."

By Mr. Brooks:

Q. Is not this also an exceptional clause in contracts of this kind?—A. This is the first contract for the construction of guns, and I might say this is the first contract of this kind. We have, incidentally, in other contracts where there has to be conversion of a plant, mainly in the interest of secrecy, a provision whereby the contractor's costs of conversion—

By Mr. McGeer:

Q. Is there anything exceptional in this?—A. Nothing exceptional.

By Mr. Brooks:

Q. Are they in the British contract? The British government has had different contracts of this kind. Is this clause also in its contract, do you know?—A. I do not know; I have not access to the British government contract at all.

By Mr. McGeer:

Q. Is this provision in the British War Office contract with the Inglis company?—A. No, not in the British War Office one, because we are the ones that are getting all the machinery and it is out of the British contract.

Q. They are paying one-third of the cost?—A. They are paying one-third of the cost, and the dealings with regard to machinery and conversion are solely as between us and the English company.

By Mr. Factor:

Q. The British government pay for one-third of the equipping of the plant?—A. Certainly, sir, one-third of all costs.

[Colonel R. J. Orde.]

By Mr. McGeer:

Q. One-third of all costs of manufacturing the guns?—A. Of the pre-production period.

By Mr. Douglas:

Q. Can we have some fair idea as to where the different periods are marked out, the pre-contractual period?—A. Prior to the 31st March, 1938.

Q. Then there is a preparatory period. The production period really does not begin until the first guns are manufactured?—A. No.

Q. Or do you say production begins the moment the plant is operating?—A. No. The preparatory period is also 31st March, 1938, until the first lathe turns, starting to turn out the Bren gun.

By Mr. McGeer:

Q. Or a part of a Bren gun?—A. Or a part of a Bren gun.

By Mr. Douglas:

Q. Are we still in the installation period?—A. Oh, yes.

Q. How long will we be there?—A. I cannot answer that. I am told we are ahead, or they are ahead of schedule.

Mr. McGEER: They begin producing parts in July.

By Mr. MacInnis:

Q. We can be in the pre-production period and the production period at the same time, can we not?—A. Yes, in respect of certain kinds of equipment which has not yet been received and required.

By Mr. McGeer:

Q. They may be producing one part and preparing to produce other parts. That is perfectly clear.

Mr. MACINNIS: It is clear to me, even.

The CHAIRMAN: Can we get on with this?

By Mr. Green:

Q. On page 5 at the end of clause (g) there is a provision that we pay for the removal of any of our machinery, and also for replacing the Inglis plant in the same condition in which it was before removal?—A. Yes.

Q. Then it goes on to say, "...such property of the party of the second part as has been originally moved or shifted by reason of the installation in this plant of the party of the second part of the said machinery, tools, dies, gauges and equipment of the party of the first part and/or which, for the purposes of the carrying out of this contract was converted or moved at the expense of the said party of the first part."—A. Yes. I am not denying for a moment that the clause does not enable us to pay a reasonable compensation or reasonable cost for converting, if we approve of it, or because of the cost of dismantling and the cost of restoration, and it was so intended.

By Hon. Mr. Stirling:

Q. Can we be asked to undo the conversion and pay for it?—A. Yes, sir. If we dismantle the plant or if the plant is dismantled at our request, or if the company says, "we do not want your machinery in here any more; take it out," then we have to pay the costs of putting that plant back into the shape it was at the time we stepped in.

Q. Take the case of the old buildings that have been altered in the process of converting it into the production of Bren guns. Can the Inglis company ask us to restore them to their original state?—A. If that original alteration was comprised in conversion. We say it does not comprise conversion. We say this \$80,000 is not a part of conversion at all.

By Mr. Factor:

Q. The extension of the building is not included in the term "conversion of plant"?—A. That is just what I said, and therefore when the contract comes to an end—

Q. We do not have to restore something.—A. That was not an original conversion. I would be quite prepared to advise in that regard if I were still here at the time. I would advise that they do not pay that cost.

By Mr. McGeer:

Q. Although it was built for this special purpose it would be treated as a building that was there at the time that the contract was made?—A. Part of the fabric and structure of the company.

By Mr. Factor:

Q. Clause (3) (a) on page 2 provides that the buildings are to be made available for the party of the second part.—A. I had that clause in mind when I gave my answer.

By Mr. Green:

Q. Section 4 (a) on page 5 covers the production period, does it not?—A. Yes, sir.

Q. There is no limit there to the total amount of the cost. You said the other day that the profits were estimated on a total cost of \$4,500,000?—A. I think Mr. Elliott answered that.

Q. Under 4 (a) there is absolutely no limit to the cost of producing this gun?—A. I said in an earlier answer there is no limit by way of stated amount as to the cost.

By Mr. Factor:

Q. It is clearly defined.—A. Not only clearly defined, but if you look at (a) you will see that it provides that "the sum of all costs, as hereinafter defined, properly incurred in connection with the manufacture of the said Bren gun and spare or component parts thereof. . ."

By Mr. McGeer:

Q. Which means it has to pass all the restrictive, supervisory and protective provisions which are provided in the previous sections of the contract?—A. It does give a very definite limitation to the amount.

Mr. GREEN: Well, we hope so.

Mr. HOMUTH: Amount of what?

Mr. McGEER: Amount of the cost of manufacturing the guns.

By Mr. Homuth:

Q. I asked you earlier this morning, Colonel Orde, whether there was any limitation as to the expenditures incurred outside of government supervision? There is no limitation as to the amount of expenditures incurred in the preparatory period. There is nothing in the contract to show the machinery and other things in connection with the preparatory period shall not exceed any given sum.—A. My answer was no, there was not any limitation.

[Colonel R. J. Orde.]

Mr. McGEER: But there is power to limit it to what is necessary to produce the guns?

By Mr. Homuth:

Q. I said that under the supervision of the government the cost of the Bren gun as set out in this contract is the cost of the production of the Bren gun after you start manufacturing?—A. I do not quite follow you there, Mr. Homuth.

Q. In other words, the amount of money that is spent in the preparatory period is not taken into consideration in the contract in setting out the price of a Bren gun?—A. I cannot answer myself. I would prefer that Mr. Elliott or one of the accountants answer that.

By Mr. McGeer:

Q. Is it perfectly clear from the terms of this contract that no expenditures can be made other than those which are considered necessary to produce the gun?—A. And they must be properly incurred and necessary in the production.

Mr. HOMUTH: Quite. Nobody knew, not even the War Office in England, what the actual cost was going to be.

The WITNESS: Not only did they not know that, but it is more or less envisaged in the contract, because in the last paragraph of section 6 on page 10 you will see that it says when all the Bren guns have been manufactured and they find out what the total costs are, there is a reconciliation. Therefore it won't be until the last gun is produced and delivered that anybody will know what the cost of the guns will amount to.

By Mr. Needham:

Q. Is it clear that all the costs incurred go into the total cost of the guns?—A. You mean—As I say, it is not within my ken. I do not know how the estimates were made up.

Q. I do not mean how. Are all the costs incurred, preparatory and pre-contractual, and so on, put into the total cost of the guns?—A. That is what the 7,000 guns are costing the government of Canada.

By Mr. McDonald:

Q. Has the British War Office a personal representative in Canada to check up on any expenditures on their behalf?—A. That, I believe, is now being arranged, but I do not know in what detail. The accountant officer will probably be able to answer that.

By Mr. Homuth:

Q. The fact of the matter is, if we decide at the conclusion of this contract for the 12,000 Bren guns to remove our machinery to our own warehouse or to a plant of our own, and have paid the compensation and costs of removing the machinery and compensation for any change in the plant as a result of the removal, that cost would be part of the contract, and we could not tell the price of the Bren guns until that had been completely paid for?—A. That might come into the picture as well.

By Mr. McGeer:

Q. And on the other hand, if war came and production of Bren guns was required on a large scale for Empire defence—

Mr. HOMUTH: Inglis would get another contract.

By Mr. McGeer:

Q. Inglis might, but if they did the government would get compensation for the use of the machinery, which would reduce the cost of the guns?—A. That is what section (g) says.

Q. It is as broad as it is long; it works both ways.

By Mr. Green:

Q. What is the meaning of the provision in section 4 (b) (2)? This is what it says:—

Customs duties which are paid directly or indirectly by the party of the second part in the performance of this contract or in connection therewith or are paid by parties with whom the party of the second part has, in the sense of profit sharing, contract, arrangement or contact.

I am particularly referring to the clause which says, “. . . in the sense of profit sharing?”—A. Your question, Mr. Green, relates to a clause drafted by Mr. Elliott. I do not want to pass the buck, but I should prefer him to give the answer there.

By Mr. McLean:

Q. Is not that simply exempting the payment of ten per cent?—A. Yes, but I thought Mr. Green was asking what the clause meant. The ten per cent is not computed on any customs duties.

Q. No matter who pays them?—A. No matter who pays them.

By Mr. Green:

Q. I was referring to the words, “in the sense of profit sharing.”

By Mr. McLean:

Q. It is simply making it all-inclusive. The ten per cent may not be paid to anybody.—A. It may not be paid to anybody either directly or indirectly in respect of customs duties directly or indirectly incurred.

Q. There are a few extra legal phrases added.—A. Mr. Elliott was the draftsman of the section here.

By Mr. Green:

Q. In the beginning of section 5 you provide that “the costs referred to in section 4 (a) hereof shall consist of the following specific items to the extent that they are incurred in the performance of this contract”?—A. Yes.

Q. At this plant, as you know, they have a commercial division and a Bren gun division, and some of the costs are incurred in connection with both divisions.—A. Quite.

Q. How is the distinction to be made?—A. If you will look at paragraph (t) at the top of page 9 you will see that.

By Mr. McGeer:

Q. That provision gives the department the arbitrary power to say what they shall be?—A. What shall be the proportion chargeable to the contract. I may say for your information at the moment, gentlemen, that the department for a very very short period has fixed the ratio applicable to the gun contract as being $66\frac{2}{3}$, two-thirds of the total business of the company, for the purposes of this clause here.

By Mr. Green:

Q. Which way is that, two-thirds commercial and one-third Bren gun?—A. One-third commercial and two-thirds Bren gun at the moment, subject to change at short notice.

[Colonel R. J. Orde.]

By Mr. MacNeil:

Q. That is applicable to the whole plant?—A. What I understand—

By Mr. McLean:

Q. Is that to your own knowledge?—A. To my own knowledge. It was being discussed only on Saturday. Again, you will get details as to how that was done from Mr. Dawson or one of the cost accountants.

By Mr. McGeer:

Q. In addition to that the cost of the whole plant is reduced to an arbitrary valuation for the purposes of this contract?—A. \$280,000.

Q. And the whole plant is valued at \$1,300,000?—A. The whole plant.

Q. You have set up an arbitrary valuation of \$280,000, of which two-thirds only is taken into consideration?

By Mr. Homuth:

Q. In other words, the value of the plant not entirely set up— —A. The arbitrary value placed on the plant there.

By Mr. MacNeil:

Q. This refers not only to buildings, but overhead, because this section deals with wages, salaries of indirect labour, engineering services, salaries received by executives and so on?—A. Except these items which have not yet been definitely fixed. I speak not from memory but by way of illustration. They have fixed a percentage of salaries, the amount of salaries of executive officers and so on applicable to the contract, and a number of other items not definitely fixed in relation to this particular contract, but in relation to the War Office contract. Now, there are other general items which cannot be definitely fixed in a precise amount, so many tools per month, but in the meantime my information is, and in fact it was given to me in relation to a particular matter that I was dealing with over the week-end, that the department has taken $66\frac{2}{3}$, or two-thirds and one-third as the ratio. Two-thirds applicable to the two contracts and one-third applicable to the commercial business.

By Mr. McGeer:

Q. I take it that would be subject to change?—A. Subject to change, practically on twenty-four hours notice.

By Mr. Homuth:

Q. To change either way?—A. Yes, but again it has been contemplated that that ratio will come down.

By Mr. Green:

Q. For example, the salary of Major Hahn, the president of the company. According to that arrangement the dominion would pay two-thirds of his salary and his commercial firm would pay one-third?—A. No. I specifically excepted from the two-thirds and the one-third basis a number of items for which a precise definite monetary monthly amount has been fixed.

Q. The percentage would apply to that, would it not?—A. Not necessarily, no. That two-thirds and one-third ratio applies only to these items set out here under which proposal there has not been a definite monthly amount fixed.

Q. For example, fees, expenses. That would be two-thirds and one-third?—A. Again I do not know whether the two-thirds and one-third applies to that, but if the direct amount was \$200 a month—I am giving it by way of an example—and it has not been set by the department as being the proportionate

expenditure applicable to the contract, or if we have not said that so much of Major Hahn's salary per month will be chargeable by the contractor, then I would say the two-thirds and one-third ratio would apply.

Q. It would apply to Major Hahn's salary unless some other figure was set?—A. Unless some other figure was set. I suggest that you get the accountant to tell you that. When he comes here you will get all that information. It is all down in the file.

By Mr. Factor:

Q. You brought this on yourself.—A. Yes.

By Mr. Green:

Q. Major Hahn expressly told us at the plant that the commercial division was just as important and just as large in every way as the Bren gun, and yet the government is paying two-thirds of the expenses of the commercial business?—A. That is not what I said at all, Mr. Green. I said only in respect of these items in which a definite monthly amount has not been fixed we have for the moment—and I stressed the point for the moment—to enable an adjustment to be made, fixed—it amounts to a very small amount actually.

By Mr. McGeer:

Q. As a matter of fact, under this contract the department has a right to say how much of Major Hahn's salary or any other item of expenditure is going to form a part of the cost of the Bren gun?—A. That is correct, sir; and when you get those detailed statements that have been asked for you will see that the majority of the expenditures—with one or two exceptions—have been placed on a definite monthly amount. That amount has been fixed.

By Mr. McDonald:

Q. Has there been a definite amount fixed for Major Hahn's salary?

The CHAIRMAN: We are asking Colonel Orde questions that are beyond his scope.

The WITNESS: I cannot answer that question.

By Mr. Green:

Q. You had better tell the department to cut that to 50%, because his evidence was that the commercial department was as important as the Bren gun department.

Mr. McLEAN: Have we evidence to that effect?

Mr. HOMUTH: Those who went up to Toronto got that.

Mr. McGEER: I see what Mr. Green is doing. He is overlooking the fact that his question is based on the premise that is not in accordance with the evidence here.

Mr. GREEN: I do not suggest it is.

Mr. McGEER: I think when we get the cost accountant here we will get this information beyond any dispute or argument.

By Mr. Homuth:

Q. Does 5 (a) on page 5 refer to other patents?—A. Absolutely. It does not include the Bren gun patent as such at all?

Q. There were other patents necessary in the production of the Bren gun, were there?—A. Not that I am aware of at all. There may be other patents involved in the manufacture of certain precision tooling and such like, that is all.

[Colonel R. J. Orde.]

Q. This is simply to take care of the tools that may be patented and used in the preparatory period?—A. And used in the preparatory period.

By Mr. Douglas:

Q. Colonel Orde suggested the other day that there were some negotiations going on with the Canadian government whereby the Canadian government may pay a part of the royalties?—A. I answered that very fully the other day. I did not say royalties, I was referring to the licence fee.

Q. Under the provisions of this act, who would be liable for that amount?—A. In this contract?

Q. In this contract, who would be liable for that?—A. It has nothing to do with this contract at all.

Mr. McGEER: We have no liability under the contract.

By Mr. Douglas:

Q. The John Inglis Company has the liability?—A. No.

Mr. McLEAN: The British government entirely.

By Mr. Douglas:

Q. Therefore, if the amount is payable it will have to be paid by the Canadian government, as the John Inglis Company is not liable?—A. Not liable at all, no.

By Mr. McGeer:

Q. Up to the present time the Canadian government has no liability?—A. Not until it starts producing Bren guns.

By Mr. Douglas:

Q. In respect of that it has no obligation?—A. Are you talking about the licence fee?

Q. The licence fee.—A. That is a matter of pure goodwill between ourselves and the British government.

By Mr. McGeer:

Q. As I understand you to say the other day, up to the present time we have no liability?—A. No liability at all.

By Mr. Douglas:

Q. If we paid we will pay it as goodwill?

Mr. McGEER: I would think if we are going to take the benefit of the licence which the British government has passed on to us, then we ought to pay it.

Mr. DOUGLAS: The point is there is no stipulation in this contract that the John Inglis Company has to pay any part of it.

Mr. FACTOR: It is not a part of the contract at all.

The WITNESS: It is entirely outside the ambit of this contract.

By Mr. McGeer:

Q. If the John Inglis Company were liable to pay it, then it would be part of the cost, and they would be entitled to a profit on the cost of financing it, because the John Inglis Company may find it necessary to borrow that as part of their current expenses. By leaving it out the government of Canada is exempt from any cost whatever in connection with that to the John Inglis Company. The only thing you could possibly escape is a contract of this kind as a percentage on that item is the total cost of the gun. By bearing it yourself you eliminate

that, but there is no way by which it can be exempted in any terms of any contract that I can think of as a part of the cost of the gun.—A. There is another phase of it which perhaps will clinch the whole thing. The view which I have always held is that it would be entirely repugnant to the basic licence from the Czecho-Slovakian patentee to the War Office if the John Inglis Company was to make part of the payment of the licence fee direct to the patentee.

By Mr. Green:

Q. Would clause (b) on page 6 cover such levies as unemployment insurance payments?—A. Under paragraph (d)? If payments under any unemployment insurance came within the scope of expenditures incurred or imposed by dominion, provincial or municipal labour legislation, then undoubtedly that would be an item of cost. This section deals with costs imposed on the contractor over which the Department of National Defence has no control at all. Note the words, “. . . incurred in or imposed by the observance of provincial, municipal and/or dominion labour legislation.” The law may compel the contractor to observe certain dominion, provincial or municipal legislation.

By Mr. Bertrand:

Q. If it was not observed the law may prevent them from attempting to manufacture anything in Toronto?—A. Exactly.

Mr. McGEER: There is no question about that.

Mr. GREEN: I do not think so.

Mr. McGEER: There may be a question on some items but I hardly think any question of unemployment insurance comes in here. It does not mean that everything is included there. There may be other items of expenditure imposed by the dominion, provincial and municipal governments which are not within the category of labour legislation.

By Mr. Green:

Q. In (e) you provide that engineering services furnished for a short period must be approved by the department. Why don't you protect the government in the same way in regard to the engineering services provided by the contractor?—A. For the simple reason that we approve of their own employees. They are all covered in paragraph (f). The first part has to do with their employees that are in continual work. We know who they are; we have approved of them already. What they do in connection with that man is part of their day's work. We have approved of them in one category. That would not apply to outsiders whom they may hire temporarily.

By Mr. McGeer:

Q. Section 5, with regard to those employed by the company itself, gives you the same protection as you secure under section (e) with regard to those employed by other than those whose services are received by the John Inglis Company?—A. Yes, that is what I explained to Mr. Green.

Q. You do give the same protection in (f) with regard to engineers employed by the company that you get in (e), engineers employed by others but whose services are used by the company.

By Mr. Green:

Q. It would not cover services which the company may perform and which the government may think not necessary?

Mr. FACTOR: Clause (t) protects the government in that every item has to be approved by the department before anything is paid out in respect to that clause.

[Colonel R. J. Orde.]

The WITNESS: You refer to clause (t)? As you say, there is the most unrestricted control there.

By Mr. Green:

Q. Can we get a statement showing salaries of executive officers and others?—A. I understand that has already been requested and is in course of preparation in the department.

Q. Did you say that Major Hahn's had not yet been set?—A. I said two or three times that I can't answer that, I do not know.

By Mr. Kennedy:

Q. Do we pay business taxes and taxes on land and buildings? I refer to section (t) of 5?—A. Yes, we pay those that are included as an item of cost, but only to the extent that they are related to the carrying on of the contract.

Q. Can you explain 4 (b) (5) which says "Depreciation mentioned in section 5 (p)"?—A. Yes.

Q. What is meant by depreciation?—A. If you look at clause (o) on page 8, paragraph (o) on page 8, that is what is meant. I should explain that in the compiling of this document there was a clerical error. 5 (p) should read 5 (o). That is where the confusion comes in. That was a clerical error.

Q. On page 5 it should read, "section 5 (o)"?—A. 5 (o), and the earlier one should read "section 5 (r)," paragraph (4) in respect of bank loans.

By Mr. Homuth:

Q. Colonel Orde, coming to clause (o) in respect of depreciation, after the front part of the Inglis plant starts the production of Bren guns, the business is to be carried on entirely in the new plant?—A. Yes.

Q. With the machinery that the government is providing?—A. Quite.

Q. Then, why would there be any depreciation allowed on the other part, on the commercial end of the plant? The commercial end of the plant would no longer enter into the picture?—A. There is no depreciation allowed on that. If you read the first sentence of paragraph (o) you will see that it identifies depreciation as being included in an item of cost, depreciation based on the value of the buildings, machinery and equipment owned by the party of the second part, the company, and used in the performance of this contract.

By Mr. McGeer:

Q. That relates to the portion of the plant used for the purpose of the contract. Nothing can be clearer than that.—A. Then we go a step further. We say: "It being expressly agreed that the value of the buildings, machinery and equipment owned by the party of the second part shall for the purpose of this paragraph be fixed in the sum of \$280,000, and that the portion thereof actually used in the performance of this contract shall be taken as the basis for computing the annual rates of depreciation mentioned in this paragraph."

Q. Then, for instance, if there is one-tenth of the whole plant used, at a valuation of \$280,000, it will amount to \$28,000?—A. \$28,000, regardless of the fact that it might be worth \$1,000,000.

By Mr. Green:

Q. What proportion has been set?—A. I cannot answer that. That is now in process of being worked out. I saw a claim the other day.

By Mr. McGeer:

Q. I think we can assume that if the department makes the same success in determining these other things as it has in getting power to protect the department, it will be pretty fair from the government's point of view.

By Mr. Kennedy:

Q. How does that work out again? If one-tenth of the plant is used for the production of the Bren guns we are paying one-tenth of the business tax?—A. No, not necessarily. It is under a separate assessment.

Q. It is under a separate assessment?—A. Yes.

By Mr. Green:

Q. The government has set out the full valuation of the Inglis plant, commercial and Bren gun divisions combined as at \$28,000?—A. That is correct.

By Mr. McGeer:

Q. For the purposes of this contract?—A. For the purpose of this paragraph.

Mr. GREEN: We were told they were insured for \$1,000,000.

Mr. McGEER: The facts before us are that the value of the plant is over \$1,300,000 now and cost \$1,800,000, but was insured by the trustee for \$1,300,000.

Mr. HOMUTH: Sold for \$250,000.

Mr. McLEAN: The insurance company is interested in the replacement value of the plant and has insured it accordingly.

The CHAIRMAN: Gentlemen, it is 1 o'clock. I suggest we have a meeting of the sub-committee to-morrow. We will adjourn to 11 o'clock on Thursday, and on that day we shall proceed with Colonel Orde to see if we cannot get this thing cleared up.

The committee adjourned at 1.05 p.m. to meet on Thursday, March 30, at 11 a.m.

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Canada. Public Accounts, Standing Committee, 1939

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

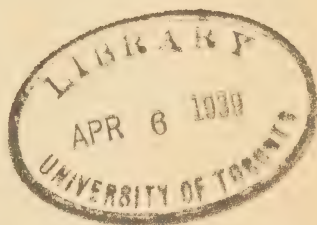
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 4



THURSDAY, MARCH 30, 1939

WITNESS:

Colonel R. J. Orde, Judge-Advocate-General,
Department of National Defence

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939



MINUTES OF PROCEEDINGS

THURSDAY, March 30, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Bercovitch, Blanchette, Brooks, Brown, Douglas (*Weyburn*), Factor, Ferland, Fleming, Fournier (*Maisonneuve-Rosemount*), Fraser, Golding, Goulet, Grant, Green, Heon, Homuth, Isnor, Kennedy, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Needham, Patterson, Rickard, Stewart, Stirling, Taylor (*Norfolk*), Thauvette, Tremblay, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Colonel R. J. Orde, Judge-Advocate-General, Department of National Defence.

The clerk filed statements of expenditures incurred in the purchase of machinery, estimated cost, etc., in respect of the Bren machine gun contract, as instructed by the Committee at its meeting of March 22.

Examination of Colonel Orde was continued.

At the request of Mr. Green:

Ordered,—That the clerk procure the following information in respect of the Bren machine gun contract:—

1. Amount the government is responsible for, as well as actual expenditures, under section 3, paragraph (e), clause 1.
2. What additional plant has been approved by the government under section 5, paragraph (r).
3. What interest on bank loans the government has paid under section 5, paragraph (r).

At the request of Mr. Brown:

Ordered,—That the clerk procure a list of all new machines purchased, under the terms of the Bren machine gun contract, showing cost and country of manufacture.

At the request of Mr. Green:

Ordered,—That the clerk procure a list of all contracts on a "cost plus" basis entered into by the Department of National Defence since January 1, 1936, showing date, name of contractor and nature of service to be rendered by the contractor.

At the request of Mr. Green:

Ordered,—That the clerk have copies made of the agreement between the government and Montreal Construction Supply and Equipment Limited for distribution to members of the Committee.

The Committee adjourned until Tuesday, April 4, at 11 o'clock a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 30, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, it is seven minutes after eleven, so if you will come to order we shall proceed. Perhaps before we get into the routine of cross-questioning this morning, I had better present to the committee the information we have obtained in reply to some of the questions asked by members at our last sitting. Perhaps I had better read the document:—

Information required by Mr. Brown, M.P. (Hamilton East), as shown in minutes of proceedings and evidence of the meeting of the Standing Committee on Public Accounts of March 22, 1939, respecting the Bren machine gun and other armament contracts

1. Where was the machinery purchased?

The following is a list of firms from whom machinery for the manufacture of Bren guns was purchased:—

Williams & Wilson Limited, Montreal.

J. H. Ryder Machinery Co. Ltd., Toronto.

The John Bertram & Sons Co. Ltd., Montreal.

Canadian Fairbanks-Morse Co. Ltd., Ottawa.

F. F. Barber Machinery Co. Ltd., Toronto.

Metropolitan Electric Co. Ltd., Montreal.

Rudel Machinery Co. Ltd., Montreal.

John E. Livingston Company, Windsor.

A. R. Williams Machinery Co. Ltd., Toronto.

Canada Machinery Corporation Ltd., Galt.

International Machinery Co., Hamilton.

Walker Metal Products Ltd., Walkerville.

Williams Tool Corporation of Canada Ltd., Brantford.

Ford-Smith Machine Co. Ltd., Hamilton.

(Sgd.) L. R. LAFLECHE,

Deputy Minister of National Defence.

Mr. BROWN: A couple of these companies are merely jobbers. That would not determine from whom this machinery was purchased. It would tell us who purchased it but not from what source it came.

The CHAIRMAN: Would not that apply to a lot of machinery, Mr. Brown?

Mr. BROWN: My idea was to find out how much of this machinery was actually manufactured in Canada. That was the purpose of my question. I wanted to know how much was purchased in Canada. When we were at the plant we were told that practically all the new machines were purchased either in Hartford or some place in Wisconsin. There were some purchases made in Switzerland and a few purchases made in England and there was one machine purchased in Hamilton. I was referring particularly to the newer machinery.

The CHAIRMAN: I wonder if we can get the information for you in this way: if we can procure a list of machinery purchased through any source, manufactured in Canada, manufactured in the United States, and manufactured in Great Britain, would that cover it?

Mr. BROWN: Yes.

The CHAIRMAN: I am of the opinion that the order in council which governs public works would apply to these purchases. That order in council says that the purchases must be first made in Canada if procurable, secondly in the British Empire and thirdly from non-Empire sources. We might get information whether that governing clause applies to purchases of equipment for this contract. Would that cover it?

Mr. BROWN: All new machines. When I was at the plant I understood that there was only one that was purchased in Canada, or at least manufactured in Canada, and probably one or two manufactured in Great Britain. I understood the others were all of American manufacture.

Mr. McPHEE: Is this going into the record as evidence?

Mr. BROWN: We are simply trying to arrive at an understanding.

Mr. McPHEE: I know, but you are putting this on the record.

The CHAIRMAN: I do not think there is anything there that should not go on the record, because we are trying to clear up this point with Mr. Brown.

Mr. McPHEE: The reporter is taking down what he has said.

Mr. MacNEIL: Why not?

Mr. DOUGLAS: Why should not he?

Mr. McLEAN: It is all very interesting, but not very valuable. We have had two witnesses here for some days, and time is running on, and it is costing the country a lot of money.

The CHAIRMAN: I think it is within the confines of what we are trying to get at. Nevertheless, Mr. Brown, I shall try to get the information you require.

Now, there was some information required by Mr. Douglas, and I shall read the statement I have here:—

Information required by Mr. Douglas, M.P. (Weyburn), as shown in minutes of proceedings and evidence of the meeting of the Standing Committee on Public Accounts of March 22, 1939, respecting the Bren machine gun and other armament contracts.

Re: *Bren gun*

1. Total amount expended by the government for machinery to date.
2. Value of machinery installed, and not yet paid for, by the government.
3. Value of machinery approved for purchase, and not yet installed.
4. Total amount spent and committed, fiscal years 1938-39 and 1939-40.
5. All expenses incurred, other than for machinery, to date.

Answers

A-1

(a) Amount paid on account of machinery to March 21, 1939, \$12,118.54.

(b) *Ross Rifle Machinery*

While no actual expenditure is involved, the department has supplied Ross rifle machinery representing an estimated replacement value of \$209,872.32. This amount is much in excess of the actual resale value of the Ross rifle machinery to be used but represents the estimated saving effected by using this equipment as opposed to purchasing new equipment throughout.

A-2

Total value of new machinery installed, \$174,845.13.

Of above 2/3—\$116,563.42 is chargeable to Canadian funds and 1/3—\$58,281.71 is chargeable to the British War Office.

Of \$116,563.42 representing the Canadian share, \$12,118.54 has been paid.

Hence, value of machinery (Canadian share) installed but not yet paid for—\$116,563.42 less \$12,118.54 or \$104,444.88.

A-3

Total value of machinery approved for purchase but not yet installed, \$497,198.39.

Canadian share, 2/3 of above—\$331,465.60.

A-4

Interpreting the word "spent" as meaning the amount actually paid out by the department to date, and interpreting the word "committed" as meaning the actual funds encumbered for definite services, the answer to question 4 is as follows:—

Total amount spent (paid) and committed (encumbered) fiscal years 1938-39 and 1939-40:—

1938-39 to March 21, 1939—

Amount paid	\$103,528.22
Amount committed	234,396.47

1939-40—

Amount paid	Nil
Amount committed	\$308,959.86

A-5

Interpreting the words "expenses incurred" as meaning the amount of money actually spent, the answer to question 5 is as follows:—

Total amounts paid up to March 21, 1939, for all expenses other than machinery:—

Progress payments	\$ 82,971.90
Salaries and wages	3,166.74
Transportation and travelling	1,088.85
Freight	1,733.38
Printing and stationery	1,240.46
Sundries	1,208.35

\$ 91,409.68

(Signed) L. R. LAFLECHE,
Deputy Minister of National Defence.

Mr. Homuth is not here this morning, but he asked for an itemized statement of vouchers. That statement is being prepared and should be ready for our next meeting. In order to clear up any doubts in anybody's mind in that connection, we are getting a statement on the data, the company from whom purchased and the amounts of the invoices.

Mr. McPHEE: I should like to speak on the point of order I raised a few moments ago. I insist that the statement made by Mr. Brown with reference to the place of manufacture of the machinery should be deleted from the record. If not, it will go out as evidence and be circulated all over the country that only a small portion of the machinery was purchased in Canada, a small portion in Great Britain and the rest elsewhere. That may or may not be true, but there has been no evidence given so far along that line.

The CHAIRMAN: I do not like the idea of deleting anything from the record. Don't you think it will be amply covered in the evidence when I assume responsibility for saying that I believe the order in council covering the purchases of supplies or equipment for the Public Works Department applies equally to the Department of National Defence? I believe Mr. Stewart will agree with me in that connection.

Hon. Mr. STEWART: I am not sure of national defence, but the Public Works Construction Act covers public works' expenditures.

The CHAIRMAN: I am given to understand the same thing applies to national defence.

Mr. GOLDING: You have Colonel Orde here, ask him that question.

Colonel R. J. ORDE recalled.

The WITNESS: I cannot answer that.

The CHAIRMAN: My belief is it is covered by order in council in both cases as far as the public is concerned.

Mr. GREEN: The report of the minutes of the last meeting says that I requested the expenditures to date under section 3 paragraph (a) clause (1). That should be paragraph (e), clause (1).

The CHAIRMAN: Mr. Burgess informs me that is a misprint.

Mr. GREEN: I wanted also the payments for which we are responsible as well as the payments actually made.

The CHAIRMAN: Now, gentlemen, I heartily agree with my friends Mr. McPhee and Mr. McLean that we are holding up the witnesses and I believe you will all agree with me if I ask members to see if we cannot finish with Colonel Orde as quickly as possible, because we have had the Commissioner of Income Tax here for three or four days now waiting to go on the stand. While it is not my intention, I assure you, to try to curtail any evidence, perhaps we can co-operate to the extent that we can get on with the next witness as soon as possible. Is that your pleasure?

Mr. MACNEIL: Mr. Chairman, may I ask one further question in regard to the \$20,000 pre-contractual expenses?

By Mr. MacNeil:

Q. Was it intended that that would cover legal expenses as well as engineering?—A. Not necessarily, at all. May I refer you to my evidence before the Davis commission and my statement that I made there reflecting on what I told H. A. W. Plaxton when he appeared in my office with his written bill?

Q. Do you not admit that it might be considered as a legitimate claim?—A. No, that is just what I did not do. I said, in effect, to Mr. Plaxton: "you have a claim, make it, and then I will pass judgment on it. We are not going to give any expression of opinion in advance."

Q. To your knowledge has any such claim been approved?—A. I cannot answer that. I have just a very few statements to make in conclusion, and they are of a rather general character.

Mr. GREEN: We had not finished going through the contract. Should we not finish with that first?

The CHAIRMAN: That is what I had in mind when I mentioned a meeting of the sub-committee at the last regular meeting. Now, whatever is the wish of the members in connection with going on with the contract is quite agreeable to me. My only thought is that we should get over with it as quickly as possible and not waste any more of Mr. Elliott's time. I am not stressing that at all,

[Colonel R. J. Orde.]

but if it is agreeable, I think any questions on the contract that can be answered by Mr. Elliott should be left until he is called.

Mr. GOLDING: Was not Colonel Orde trying to avoid going over the same ground that Mr. Elliott had covered?

The CHAIRMAN: Yes, he has been doing that.

Mr. GOLDING: Trying to—

The WITNESS: What I had in mind, Mr. Chairman, was to give very shortly the evidence that I thought might be useful to the committee as coming from me, rather than waiting for questions to be directed to me. I thought it might save a great deal of time and might pave the way for any questions along that line.

On three or four occasions it has been suggested that when a draft of a proposed contract emerged from my office and went from the Deputy Minister of National Defence to the interdepartmental committee that that particular draft of a proposed contract represented the department's last word with regard to this transaction. That, might I say, with all the conviction that I can possibly give, was the farthest thing from our intent. The contract was in a continual state of flux and each draft that was prepared represented a consolidation up to date of the negotiations, the considerations, the instructions and—what shall I say?—the terms of the bargain which had been reached up to that period; and so on all the way through the transaction until the final contract emerged for a meeting of the interdepartmental committee on the 17th March. I thought it might be of some service to the committee if I indicated by reference to the exhibit numbers, which are before the committee, rather than for them to read from beginning to end the three volumes of exhibits, the various memoranda, and minutes of the interdepartmental committee, so as to indicate, shall I say, the mental process of the department in an endeavour to tighten up and to keep on tightening up and improving and keep on improving from the beginning the first draft until the final draft as executed emerged. I made a few notes so that I would have the exhibit numbers correct, and if I can just read these off, possibly the transcript of the evidence may serve some useful purpose and save time.

On November 19, 1937, Major Hahn, whom I saw then for the first time, produced a draft of a proposed contract. It appeared to me to be one based on one of our earlier aircraft contracts. I cannot recognize the draft he produced to me particularly, but it was either exhibit 26 or exhibit 145. That draft was scrutinized and it was cast aside. It would not meet the situation at all, so we can dismiss that. To all intents and purposes, the first draft that was prepared was on November 22, 1937, exhibit 33. On December 22, subsequent to a meeting which Major Hahn had with the technical officers of the department a few days later, changes were made to the draft, exhibit 33, and the next draft of a proposed agreement which consolidated these subsequent amendments is exhibit 42. It is a draft appended to exhibit 42. Exhibit 42 is a rather bulky exhibit, and it is a draft appended to exhibit 42. The next complete consolidation, next revision, is the one which was made on the 23rd February, 1938. That is exhibit 53. That draft comprises a number of amendments suggested by Sir Harold Brown in an appendix to his letter to the deputy minister, dated February 11, 1938. Sir Harold's letter is exhibit 227, and the list of amendments which he had made to the War Office contract, which was similar, almost word for word with ours, are set out in exhibit 374. Then, on the 24th February—

By Mr. MacNeil:

Q. 1938?—A. 1938.

Q. Subsequently to the meeting of the interdepartmental committee?—A. Yes, subsequently to the first meeting.

Q. Make clear the exhibit number of the draft which was handed to the interdepartmental committee?—A. The draft handed to the interdepartmental committee, Mr. MacNeil, is appended to exhibit 42, which exhibit is a copy of the minutes of that interdepartmental committee meeting. Exhibit 53, which was the draft of the 23rd February, was forwarded to the interdepartmental committee with the chairman's letter dated February 24, 1938, and according to the minutes it appears to have been considered by the departmental committee on February 25, 1938, referred to a sub-committee which reported to the chairman of the main committee on February 26, 1938, exhibit 54. The next phase of the transaction in which I was concerned—may I just interject this? I am dealing only with the points with which I personally was concerned. Other witnesses will amplify this according to their own knowledge.

On March 14, 1938, the chairman—that would be General LaFleche—of the interdepartmental committee, wrote at length to the members of the committee, commenting on the sub-committee's report, and upon the points mentioned during the meeting of the main committee held on February 25.

Q. What is the exhibit number?—A. Exhibit 56. And on the evening of March 15, 1938, General LaFleche, as deputy minister of the department, discussed with me exhibit 56 which indicated, in about twelve pages, the committee's views and suggestions on the various amendments. These were suggested by Sir Harold Brown in the draft as it had been revised up to that stage.

He also discussed with me the memorandum from the master-general of the ordnance, which is exhibit 58. From that discussion and having regard to what appeared in these two exhibits, 56 and 58, a further draft of a proposed contract was prepared in its entirety by me embodying what was covered by exhibits 56 and 57, with the exception of the suggested amendments to sections 4 (b) (2) and 5 (r), and the reasons, if any, comprising these suggested amendments are set out in a memorandum of mine dated March 16, 1938, which is exhibit 59.

Now, the draft which emerged following on that is dated the 16th March, and is attached to exhibit 63, exhibit 63 being the minutes of the meeting of the interdepartmental committee held on the 17th and going on into the early hours of the 18th of March, 1938.

By Mr. McGeer:

Q. Do you mind my interrupting there? You referred to exhibits 57 and 58, is that right?—A. Yes.

Q. Would that have to do with the redrafting of the contract? Was there something to be incorporated?—A. I have not got a copy of the exhibits here. May I see them for a moment?

Q. Yes. You have referred to them as being responsible for the change in the draft of the contract?—A. May I make a suggestion, Mr. McGeer? I have only one more exhibit, and it would break the continuity of this if I broke off now to answer your question. We can come back to your question later, if you will allow me.

Q. Yes.—A. I just stated that the draft of a proposed agreement dated 16th March is attached to exhibit 63, which are the minutes of the interdepartmental committee held on the 17th and 18th of March. The agreement in its final form as it emerged from the discussion that took place at that meeting is the final one, as signed, and is exhibit 4. That concludes my tracing of the exhibits as far as I was concerned.

Now, Mr. McGeer, these exhibits, 57 and 58—

Q. I was wondering what they had to do with it?—A. May I make a slight correction there. You can disregard, as far as I was concerned, exhibit 57. That was an error. They were exhibits 56 and 58.

Q. Exhibit 57 is a letter from the Deputy Minister of National Defence to the members of the interdepartmental committee.—A. Yes. The exhibits [Colonel R. J. Orde.]

are numbered in a rather confusing fashion. Exhibit 57 is marked in this copy as a letter dated March 16, 1938, from the chairman to the members of the interdepartmental committee, and then attached to that you will notice is a memorandum headed "saving to Canadian Government by British order for 5,000 Bren guns." This memorandum is from the master general of the ordnance. There is also a copy of a secret memorandum from the master general of the ordnance on the point of maximum profits and a copy of a secret memorandum of this date from the Judge Advocate General concerning suggestions made by the committee in regard to section 4. These are attached to exhibit 57. They are apparently in the copy which I have in my hand, but some of the ones I have before me were also in other exhibits.

Q. Yes, but the pith of the exhibits is contained in this section of General LaFleche's letter to the members of the interdepartmental committee, is it not?—A. Yes.

Q. Let me finish. "During the discussion at the meeting of February 25, 1938, I made a statement to the effect that I had been very largely responsible for obtaining Canadian made Bren machine guns much earlier than otherwise possible at a saving of \$1,000,000. The correctness of my figure was questioned. Therefore, the master general of the ordnance was requested to give me a memorandum on the subject. The above mentioned enclosure is a copy of the M.G.O.'s report, from which it will be seen that I underestimated the saving." That portion of exhibit 57 that I have read to you indicated that the interdepartmental committee was questioning this alleged saving?—A. May I make my position abundantly clear? As far as I was concerned, I was not referring to this letter of General LaFleche; I was referring to the other documents. I had nothing to do with General LaFleche's letter at all. I was referring first to exhibit 58, which is referred to in exhibit 57. That is how I come to refer to exhibit 57. I was referring to exhibit 58, a memorandum dated March 15, 1938, from the master general of the ordnance to the deputy minister, indicating the new amount for the maximum overriding profit, which, naturally, I had to incorporate in the draft that I was preparing. That was my whole purpose in referring to that exhibit. I had nothing to do with the remainder of it at all. Then, I also referred to exhibit 59, which indicated the reason I advanced, or advice I gave against including certain proposals to the interdepartmental committee with the draft. They were more technical, and not particularly material.

By Mr. Green:

Q. Let us turn to paragraph (1) at the end of page 7 of the contract.—A. Section 5, paragraph (1)?

Q. That, apparently, provides for the payment of rent to the John Inglis Company on whatever portion of their premises is used in connection with the manufacture of guns?—A. Only when the plant is not in production.

Q. During the preparatory period?—A. During the preparatory period, yes, but when the plant is in production they do not get any rental. I mean, it will be refunded. My understanding is—I will be very frank about it—it is an extraordinary clause, and according to my understanding of the situation it was a species of compromise between the department and Major Hahn, who originally held out for full rental during the whole time.

Q. Instead of that he gets a rental value on all his plant that is used for Bren gun purposes during the preparatory period?—A. That is my understanding.

By Mr. MacNeil:

Q. Plus ten per cent?—A. Ten per cent on the rental value, yes.

By Mr. Green:

Q. He gets ten per cent during the production period also, does he not?—
A. No, he does not, because while the plant is in production he does not get any rent at all. It is subject to our prior approval.

Q. It is worded in this way, the government pays it even in the production period and he refunds it?—A. He refunds it.

Q.. There is nothing to prevent him from getting ten per cent on that?—
A. Yes, there is. If you will notice, that is subject to our approval, and our approval is now under discussion, and the opinion which I have expressed and the suggestion which I have made, and which I understand has been accepted, is that we pay the rental value subject to revision, conditional upon there being no ten per cent on that.

By Mr. MacNeil:

Q. That is not specified in the contract?—A. We can approve, subject to whatever condition we choose to attach to it, and that happens to be the condition we attach to it.

By Mr. Green:

Q. Can you tell us what rental value he is to get during the preparatory period?—A. You mean the amount?

By Mr. McGeer:

Q. Do you know that?—A. I cannot tell you that; somebody else will answer that.

By Mr. Green:

Q. Who would be the proper official?—A. The cost accountant, Mr. Dawson, or whoever comes from that branch.

By Mr. Kennedy:

Q. Certain portions of the factory are used by the government for tests; do we pay rent on that part even during production?—A. I cannot answer that. Again, that is a detail that must be worked out by the accountant.

By Mr. MacNeil:

Q. Getting back to the draft which is finally completed by the department and referred to the interdepartmental committee— —A. May I correct you there? It was not finally completed by the department and handed to the interdepartmental committee. The last interim draft was the one dated 16th March, which was referred to the interdepartmental committee, and it was again in process of evolution.

By Mr. Douglas:

Q. What exhibit is that?—A. The one attached to exhibit 63.

By Mr. MacNeil:

Q. I will accept your correction of my phraseology. I am referring to the draft referred to the interdepartmental committee. Did that draft provide that Major Hahn's associates should have the exclusive licence to manufacture Bren guns in Canada?—A. May I just refer to the draft? I am practically certain that it did. Yes, it did.

Q. Was that placed in the draft of the contract under instructions from the department?—A. It remained in there from the first draft. You say "placed [Colonel R. J. Orde.]

under instructions from the department." These drafts were considered, as I said, time after time, by the interdepartmental committee. The first draft had an absolutely exclusive licence, the one of the 22nd November, 1937. The next draft, which is attached to exhibit 42, minimized the exclusive character which appeared in the draft of the 22nd November, 1937, in that it provided that we could take over, and if it was an exclusive rights, destroy the exclusive character of the licence on the happening of an emergency as defined in section 2 of the Militia Act. The second one in the form that it appeared in the draft attached to exhibit 42 continued that power in successive drafts, and as I we could take over, and if it was an exclusive right, destroy the exclusive character. We knew it was coming out. We knew that Major Hahn was rather keen on the question of licences and patents and the exclusive character of it, and there was a certain amount of bargaining going on all the time. We were going to take this out in any event, and we took it out at the last moment. That is the story.

Q. It was not taken out until after the inter-departmental committee had dealt with it?—A. It was not taken out in the course of the discussion there with Major Hahn.

Q. Did you not in your evidence before the commissioner say that you had instructions to retain the exclusive licence—A. No, I am sorry if it was construed that way. If it was construed that way it is an erroneous construction. What I said, if I remember rightly, was that I received no instructions to delete it, and the point did not arise in the course of the negotiations.

Q. In the draft referred to the interdepartmental committee, was provision made for the payment of ten per cent on the cost of machinery during the preparatory or installation period?—A. No., sir.

Q. No provision made for that?—A. You mean on the cost of the machinery?

Q. Yes.—A. No. May I just have a moment to check up?

By Mr. McGeer:

Q. May I draw the committee's attention to page 4 of exhibit 63. The limitation of the thing is indicated there. It starts at the bottom of page 3 and is as follows: "Mr. Elliott stated that this contract might lay the foundation for the manufacture of Canada's armaments for many years to come, and having regard to an all-time contractual relation, he considered that the ten per centum on all costs was very high, going on to state that there were many contractors who would like to have this contract because of the future rights in it for all time to come, but if the above is overridden by the urgency of the moment he agreed that the committee go into the terms of the contract, but that he objected to the word 'exclusive' in the second line of the section numbered 1."—A. What are these minutes?

Q. The minutes of the interdepartmental committee, exhibit 63. Then, it is referred to again. "Mr. Elliott said that the committee appreciated the government's action, and that the committee was only advisory, adding that without the exclusive continuing right feature the contract was a good one." So apparently the change in the question of exclusive right came out of the suggestion of the interdepartmental committee through Mr. Elliott, and I should think that he would be the proper witness to examine on that because he seems to have first hand knowledge about it.

By Mr. MacNeil:

Q. May I ask if Colonel Orde did not have charge of the second draft of the contract up to the point where it was referred to the interdepartmental committee? It is on that point I am directing my question. My question now

is directed to whether or not the draft referred to the interdepartmental committee provided for the payment of ten per cent on the machinery installed during the preparatory period?—A. I was just about to trace that. You will find the draft attached to exhibit 42 was a revision of the first draft prepared on the 22nd November, 1937; the draft that is attached to exhibit 42 was considered by the interdepartmental committee, at its meeting, I think, on the 5th January, 1938—

Q. The first meeting?—A. The first meeting, and the ten per cent on machinery is not included.

Q. But it was included in the previous draft?—A. No.

Q. The previous draft has it?—A. Yes, in the first draft which was prepared, that was the original one, it was ten per cent on the whole cost of machinery, tools, dies and so on. That was the one of the 22nd November, 1937. Following that there was a meeting held some time in December, 1937, between Major Hahn and the technical officers of the department. That earlier draft was revised and ten per cent on the machinery was excluded, and the draft with the ten per cent on machinery excluded was the first draft that went to the interdepartmental committee.

Q. Another point, in the first draft referred to the interdepartmental committee was there any provision for a very much higher maximum overriding profit than is now provided for in the contract?—A. There was no maximum overriding profit fixed at all in the contract that went to the first meeting of the interdepartmental committee.

Q. Was there not an estimate prepared by the department of a sum much higher than now?—A. I cannot answer that. I am not a member of the committee; I have no knowledge at all of that.

Q. Did you not deal with these various exhibits which indicate a maximum overriding profit? A. Only those that were referred to me. The negotiations and the, you might say, financial aspect of it were entirely outside the ambit of my duties. I merely was given certain information and told to get along with the draft.

Q. The final draft referred to the interdepartmental committee provided wholly for rental reimbursement on all the buildings?—A. You mean the contract that they considered at the meeting?

Q. At the first meeting.—A. That is all part of exhibit 42, Mr. McNeil. Yes, that first draft on page 10, clause (m), had the rent as being comprised in the cost. The section reads as follows:—

The rental value of buildings, equipment or property which are used in order to perform this contract, provide always that all such rentals are subject to the prior written approval of the party of the first part.

That means the approval of the department.

Q. May I ask further, at what point was the deletion made of the suggestion that was in the contract that a firm of chartered accountants be employed to survey the assets of the company to determine those assets employed directly in the fulfilment of the contract?—A. I do not quite get what you mean. At what stage in the drafting of the contract? I know of no provision in any of the contracts that a firm of chartered accountants would be employed, none of the drafts of the contracts. That was a matter of departmental administration.

Q. Were there not various memoranda referring to the suggestion of some provision being made to employ a firm of chartered accountants to fix the assets of the company?—A. No—I will qualify that. There would be no necessity so far as I was concerned. That would be a matter of departmental procedure pre-contractual.

[Colonel R. J. Orde.]

Q. Did the interdepartmental committee alter the incentive clause?—A. I would prefer to have Mr. Elliott speak on that. In the draft that was submitted at the last meeting of the 17th and 18th March, the incentive clause was not included, and it was included—you will notice it is numbered 6 (a) in the final draft to avoid disturbing the numbers of the succeeding sections. We put this in as an addition, 6 (a).

Q. Did the final draft referred to the interdepartmental committee include the so-called stopper clause relating to stock transactions?—A. That is the last paragraph of section 1 in the final agreement? No, it did not. That was again, as I stated the other day, an action on Mr. Elliott's part. Mr. Elliott drafted that last paragraph himself at the meeting and it was incorporated as he drafted it.

By Mr. Green:

Q. Colonel Orde, going back to paragraph 11 at the bottom of page 7, I should like to ask you this: has that provision ever been made before in a defence contract?—A. Yes, sir, in a very much wider scope. It is a provision which appears in our aircraft contract. It is in a wider scope as it appeared in paragraph (m) of the draft attached to exhibit 42.

Q. Have you any idea on what portion of the buildings depreciation is being allowed in paragraph (o)?—A. No.

Q. Mr. Dawson would know that also?—A. Either Mr. Dawson or somebody from the master general of the ordnance's branch.

Q. In (t) you provide for business tax and tax on land and buildings?—A. Yes, sir.

Q. That appears on page 8. What is that meant to cover?—A. Well, the proportionate amount of the total business tax, tax on land and buildings applicable to that portion of their enterprise or their establishment that is carrying out the contract, and it is computed in accordance with paragraph (t) of section 5 at the top of page 9.

By Mr. Douglas:

Q. Is this on a two-thirds and one-third basis?—A. I cannot answer that.

Q. It does not provide that?—A. I do not know what the ratio is.

By Mr. Green:

Q. The intent of the contract, according to paragraph 5, was for the government to pay all the cost, all the expenses?—A. No. The government would pay all the expenses properly incurred in connection with the manufacture of the Bren gun. The first part of section 5 explains the whole purpose of the section.

Q. Legal costs. Why should the government pay legal costs of the Inglis company—Paragraph 2?—A. There is no reason why the government should pay legal costs except if these are costs incurred in the performance of the contract, necessary, we will say, to deal with some litigation where, if it is not dealt with, the company would be incapable of carrying out its contract. If you will note there, they must have our prior written approval.

Q. Surely the government does not pay legal costs that might arise in carrying out of contracts entered into by the Department of National Defence?—A. It certainly does not.

Q. Is that the usual clause in your contracts?—A. It is in all our cost-plus contracts. What we contemplated there was the possibility of—may I give you an example—some workman feeling that he had been badly treated, or some supplier of goods might bring a nuisance action or something like that, and unless it was dealt with—we would not be a party to the action—the contractor would be the only party that could be sued.

By Mr. Green:

Q. We would not be a party to the action but the government would be paying all the costs, nevertheless?—A. If we approved of it. We certainly would not approve—at least, I assume that the department would not be so generous that it would approve any costs. They must have to do with the carrying out of the contract.

By Mr. MacNeil:

Q. Not for the pre-contractual or preparatory period?—A. (q) does not relate to the pre-production period at all.

By Mr. Douglas:

Q. Clause (p) dealing with business taxes and taxes on land and buildings does not say anything here as to whether they pay all the taxes or whether it would be a matter of negotiation as to how much taxes are due for that part of the plant and buildings in which the Bren guns are being produced and that part of the plant which is doing commercial work?—A. Oh, yes. I referred Mr. Green to paragraph (t) of section 5. You will see that on the next page, page 9.

By Mr. Green:

Q. We pay business taxes, taxes on land and building plus ten per cent, and we pay legal costs plus ten per cent. Why on earth should they get ten per cent on those items?—A. That was a matter of departmental policy. I cannot answer that.

Q. The next item is paragraph (r):

Interest on bank loans raised by the party of the second part for the purpose of providing any additional plant which may be required and approved by the party of the first part.

In other words, the government has to pay the interest on bank loans that are raised by Hahn to improve his plant?

Mr. BERCOVITCH: That is, if the government approves of it.

The WITNESS: That was a matter of the department's bargain, and that is all I can answer.

By Mr. Bercovitch:

Q. It is always subject to the government approving it?—A. Undoubtedly.

By Mr. Green:

Q. That may be, but in how many of your departmental contracts are any provisions of that kind contained?—A. Every one.

Q. The government pays interest on all bank loans?—A. Obtained with the prior approval of the government; otherwise you might have the company running wild and borrowing money ad lib.

By Mr. Needham:

Q. Yes, but when these statements are in the contract, is it possible that the government would refuse to pay legal fees?—A. If it refused to approve, I would imagine so.

Q. Why is it in the contract? Why is it stated in the contract, and then say, "If we approved"? The very fact that it is in there, is that not an intimation that they will pay it?—A. To the extent approved. May I put it this way? If in the opinion of the government—this is my conception of it and what I surmised to be the intention of the department when I passed the clause in this

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way, and that is the best intimation I can give you as far as I am concerned—that if in the opinion of the department the necessity or desire of the company was a necessary one in order to enable it to fulfil its contract, then the government has the right to approve to the extent that it considers it necessary. And it follows then that that interest is a charge against the cost of production.

By Mr. Green:

Q. But this paragraph says, "providing any additional plant which may be required and approved by the party of the first part." It is not the matter of a loan that has to be approved, it is the matter of whether they need further plant?—A. And it limits it to that extent and that extent only. This clause was the subject of some discussion by the interdepartmental committee and it represents—I am not trying to pass the onus on to somebody else—their views and is again a part of the bargain that was made with Major Hahn.

By Mr. Brown:

Q. I am suggesting, Colonel Orde, that the department could not refuse without reason?—A. I think that is perfectly true. Merely because it did not like the provision it could not withhold approval.

Q. In your former evidence on the bond, you stated they could refuse without reason or with reason?—A. I did not say that that was our view; I said that that was the view of the underwriters.

Q. I see the point.—A. Yes; I was paraphrasing the long-distance telephone conversation.

By Mr. Green:

Q. What additional plant has already been approved?—A. I cannot answer that.

MR. GREEN: Can we get a statement on that, Mr. Chairman; also the interest on bank loans for which the government is responsible in connection with that plant?

MR. McGEER: They are not responsible for any.

THE CHAIRMAN: We will get that information. We have not got it broken down yet.

By Mr. McGeer:

Q. With reference to the question of legal costs, that is a very limited provision, is it not?—A. Oh; very limited.

Q. It says: "Legal costs incurred in connection with the performance of this contract, provided however that any legal costs incurred by the party of the second part shall not be allowed as a cost in connection with this contract unless there has first been secured the written consent of the party of the first part." I take it from reading that section that any legal costs that the department would approve would be those involved in something which was necessary to be done in a legal way to secure the fulfillment of the contract for the benefit of the contract.—A. Undoubtedly. That was the intention.

By Mr. Green:

Q. Yes, but the colonel said they had in mind particularly any suit by workmen.—A. I gave that by way of an example.

MR. BERCOVITCH: That was his example.

By Mr. Bercovitch:

Q. It might be anything?—A. It might be anything.

By Mr. McGeer:

Q. For instance, supposing somebody made a claim against the company on a question of disputed accounts for the purchase of machinery which the department had approved?—A. I can give you a very similar example which happened in connection with another contract which has a similar clause in it and where during the carrying out of the contract—it was for aircraft—there was a change made in the design of this particular aircraft which demanded a supplementary licence from the English patentee. We asked the contractor to price that modification in the aircraft. He was to pay certain stamp taxes and solicitors' fees in England, and in the corresponding clause in that contract we allowed him his legal fees. They were not very large. But that is the sort of thing we have in mind.

Mr. McGEER: It is the usual term in all plus contracts, as far as I know. I know I have had to do with several of them quite apart from the department, and that clause is in every one that I have ever seen.

By Mr. McNeil:

Q. At the time you were giving evidence before the commission, I notice you made a comparison with other contracts. There were three others?—A. There were three others.

Q. And that provision was made for legal expenses?—A. Yes, legal expenses both during the carrying out of the contract and in two cases pre-contractual legal expenses.

By Mr. McGeer:

Q. This does not include pre-contractual expenses?—A. No.

Mr. GREEN: No; they got \$20,000.

By Mr. Brown:

Q. How many contracts of this type have been made by the department, and since when did they start?

The CHAIRMAN: Do you think, Mr. Brown, that that question is a proper one? Are we not getting into a rather wide range?

Mr. BROWN: Well, Colonel Orde would naturally draw up these contracts. I just wanted to know the particular time when contracts of this kind started to be given out. That was all. I do not believe that they were given out for a long period of time.

The CHAIRMAN: Would you mind if I suggested that you put your question in another way? Could you ask the witness whether this was the first or the third or the fourth, if he knows that? Would that give you the information you require?

Mr. BROWN: Yes.

The CHAIRMAN: Would you put your question in that way?

Mr. McGEER: These contracts were given out during the last war.

Mr. BROWN: Not of this type.

The CHAIRMAN: As I understand Mr. Brown's question, was this the third contract given or the first contract?

Mr. BROWN: Yes. I simply want to know whether it is the third, fourth, sixth or seventh given out on a basis like this?

The WITNESS: On a cost-plus basis?

By Mr. Brown:

Q. Yes.—A. I am only speaking from memory. I think it is a conservative estimate. I know there were at least seven and probably nine contracts [Colonel R. J. Orde.]

similar in principle prior to this one. I mean by that prior to the 31st of March, 1938.

Q. How long before that?

By the Chairman:

Q. When was the first one given?—A. The first one is dated June 2, 1937.

By Mr. Green:

Q. What were the others for?—A. The construction of certain fortifications—works.

By Mr. Brooks:

Q. Did I understand you to say the other day, Colonel Orde, that there were two other similar contracts?—A. No, no. If I said that, it was a mis-construction of a question. I actually drafted, before I set about drafting this—I can check it up and give you the precise number—seven that I know of, and I think there were nine.

By Mr. Green:

Q. What were they for?—A. Aircraft, shells and certain fortifications. That covers the field.

Mr. GREEN: Could we have a list of them?

Mr. McGEER: Had we not better confine ourselves to this?

The CHAIRMAN: We can procure a list as soon as we are finished with this one and decide what other ones we want to take up.

Mr. GREEN: They are all referred to this committee and there is no reason why the clerk could not get us a list.

The CHAIRMAN: Right.

Mr. McGEER: Mr. Chairman, there is something I should like to correct. A moment ago I said to Colonel Orde that the provision for the payment of legal costs in the section which I read did not include pre-contractual legal expenses and the answer was "No." And the member for Vancouver south stated, "Well you got \$20,000 for that." Now, I want it to be on the record that that statement is absolutely inconsistent with the fact.

Mr. GREEN: All I said was it is included in the \$20,000.

Mr. McGEER: Your statement was "You get \$20,000 for that."

Mr. GREEN: That is all I meant.

Mr. McGEER: All right. I do not know that there is any provision in this subsection 1 of paragraph (e) for the payment of any legal expenses.

Mr. GREEN: Colonel Orde explained that in his evidence.

Mr. McGEER: I want to put it on the record. That section reads:—

A sum not exceeding \$20,000 in respect of actual cost of preliminary investigation, planning and engineering services carried out by the party of the second part.

I think it would be a strange interpretation of that section to include in the words "preliminary investigation, planning and engineering services" legal expenses.

By Mr. Brooks:

Q. Can Colonel Orde tell us whether there were any legal expenses paid or not?—A. Pardon.

Q. Were there any legal expenses paid out of this \$20,000?—A. Not that I am aware of. If you will read my evidence at the Davis commission you will see the answer is “No” to that.

By Mr. Brown:

Q. There were some legal accounts submitted but not paid?—A. They were submitted to the department and returned.

Mr. GREEN: We will have all that when we get the returns.

By Mr. MacNeil:

Q. You are not certain as to whether or not those claims were approved?—A. I have no knowledge at all there.

Q. The possibility exists that they might be paid under that clause?—A. Oh, I am not going to answer that question.

By Mr. Bercovitch:

Q. Everything is possible in this world?—A. Certainly.

By Mr. McGeer:

Q. There is one point I should like to remind you about—it seems to me it is rather important—and that is the inclusion of the incentive clause; that is, the standard costs clause.—A. That is section 6 (a).

Q. Do you recall the manner in which the inclusion of that section in the contract developed?—A. All I know about it is that it was considered at the meeting of the interdepartmental committee. It must have been considered at the meeting of the interdepartmental committee held on the 17th or 18th of March, because I was instructed by the deputy minister to go down to that meeting and to include in our contract the same clause that the British had in their contract.

Q. I have before me exhibit 54, which is a letter from the chief inspector of income tax enclosing a copy of the interdepartmental committee's minutes. They are attached to this letter. The sub-committee was composed of H. Marshall, A. K. Eaton and R. Sharp. And this is the statement to which I should like to direct attention:

The sub-committee note with interest the provision of section 5 *re* standard costs in the proposed contract between the Secretary of State for War of the United Kingdom and John Inglis Company Limited and suggest the discussion and possible insertion of a similar clause in the proposed Canadian contract, it being considered a desirable factor in a cost-plus contract to have some incentive for reduced costs, particularly when the larger proportion of such reduced cost reduces the public expenditure.

That is an interdepartmental sub-committee's recommendation—departmental committee?—A. Yes, sir; that was dated February 26, 1938.

Q. So apparently the origination of this incentive clause in our Canadian contract was due to this sub-committee observing it in the British contract in the first instance?—A. Well—

Q. I mean, that is the statement?—A. That is the statement of that report. I was aware of the incentive clause being in the British contract because I wrote a draft of the British contract and they insisted upon that clause being put in. I was fully aware that there was such a clause.

Q. Referring now to exhibit 55. That proposal is dealt with in a memorandum forwarded by General LaFleche, the chairman of the committee and deputy minister, to the interdepartmental committee. The letter is dated Febru-

[Colonel R. J. Orde.]

ary 26. In that report apparently the department were not in favour of the incentive clause. It reads:

With reference to the sub-committee's remarks concerning the "incentive" clause or the "standard cost" clause to be found in the war office contract, it is in my opinion not necessary and inadvisable. As it is, expenditures to be incurred in connection with Canadian cost-plus contracts are very carefully controlled by the provisions which give to the department the right to approve expenditures. In my opinion, it would be inviting criticism to make provision for indefinitely higher profits which might accrue to contractors. I believe it preferable, in Canada, to be specific and final in this regard. It must not be forgotten that should the "standard cost" clause be included in this particular contract, other cost-plus contractors would request similar consideration.

My final thought in this connection is that if the "standard cost" clause is of any value in this particular case, the department will automatically enjoy the benefit of any lower cost which such inducement might effect.

Now, that is not a recommendation by General LaFleche that it be included, is it?—A. No, sir; I was fully aware of his views because he had discussed them with me; and this paragraph of his letter reflects correctly the views he expressed to me.

Q. It was finally decided to include it in the departmental committee's—
A. Exhibit 63, sir.

Q. Yes, exhibit 63. There was quite a lengthy discussion about the whole thing. Page 3 of exhibit 63 reads:

Mr. Burns pointed out that, in the event of the incentive clause being included in this contract, the department might be faced with costs much higher than now contemplated for the period before maximum production, as the company might raise their costs during the early period of production, so as to be able to effect a greater saving on the greater production period. He stated that the government had had no experience in incentive clauses in other clauses. The members voted for the inclusion of an incentive clause in this contract, and it was decided to add the incentive clause as contained in the war office agreement, with the addition that the department will have the right to determine the date on which full production has been reached, from which date there will be reckoned the period of ninety days.

It is not a fair interpretation of those minutes to say that the incentive clause was included in this contract at the dictation of the interdepartmental committee?—A. I cannot answer that, Mr. McGeer. I was instructed to include the incentive clause in the contract. I was summoned down to the meeting and I was told that the majority of the committee had decided that this clause would be placed in the contract and "you will go ahead and place it therein."

Q. Is that not exactly what the minute refers to?

Mr. GREEN: It was Major Hahn that asked for that clause.

Mr. McGEER: No. Just let me read that again:—

"The members"—that is the members of the interdepartmental committee, notwithstanding the two protests from the deputy minister and his representative, Mr. Burns—"voted for the inclusion of an incentive clause in this contract, and it was decided to add the incentive clause as contained in the war office agreement."

The WITNESS: It speaks for itself.

By Mr. McGeer:

Q. Is it not a fair summary to say that the incentive clause was included in that contract at the dictation of the interdepartmental committee, as this minute records?—A. That was my understanding of the situation.

By Mr. Douglas:

Q. Colonel Order, is not the word "dictation" too strong a word? The interdepartmental committee was an advisory committee; it made other suggestions which were not accepted. We will come to that when we come to Mr. Elliott's evidence. They had no power to dictate anything; they had power only to suggest. The department did not have to accept that clause unless they wished to accept it?—A. All I can refer you to is the Order in Council appointing the committee.

Mr. McGEER: No contract could go before the Governor in Council for sanction without the approval of the interdepartmental committee. They were given those exceptional powers. The reason I bring this out is that by innuendo and suspicion it has been charged that this incentive clause was a conspiracy between Hahn and the Department of National Defence by which profits could be secured in excess of those disclosed in the terms of the contract. The point is that this thing originated in the war office contract. It was first observed by the sub-committee of the interdepartmental committee, recommended for consideration by them and then adopted by the interdepartmental committee against the advice of the Department of National Defence. I mean these are some of the suspicions that the committee should honestly and sincerely try to clear away, if they can be cleared away, because I do not think there is a member of this committee who does not want to put our defence department, in the estimation of the public of Canada and the public of Great Britain, in its true and proper light and free from suspicion, where suspicion can be eliminated.

Mr. DOUGLAS: I am not going to discuss it, because I know we are out of order. When we come to the evidence of Mr. Elliott, who was on the interdepartmental committee, I believe we will have a chance to see what the opinions the interdepartmental committee were. I believe we will see that many of the wishes of the interdepartmental committee were overruled and ignored. I believe the word "demand" is much too strong.

Mr. BERCOVITCH: Would it not be better to reserve these questions for Mr. Elliott when he comes on the stand?

The WITNESS: He is far the best witness from that point of view anyway.

Mr. GREEN: We have not come to that point.

Mr. BERCOVITCH: I believe it was Mr. MacNeil who raised that point.

Mr. MACNEIL: I merely asked a simple question with regard to Colonel Orde's part in drafting that, and I do not see any reason why I should take any lecture from anyone.

Mr. McGEER: I am quite sure I have your support in clearing up any suspicions that can be cleared up.

The CHAIRMAN: Now that we have had that little zephyr, I think we had better get along.

By Mr. Green:

Q. To go back to page 9, I should like to ask Colonel Orde a question on paragraph (p). As I read that provision the government pays these costs first and then at the end of the year they get something paid back. Is that the idea?—A. Oh, no. We do not pay all these costs in their entirety. Again, if

[Colonel R. J. Orde.]

you will go back to the first sentence of paragraph 5 you will see we make an estimate of these costs properly chargeable to the carrying out of the contract, then at the end of the fiscal year there is an adjustment and there will be a balance sheet to see whether that apportioning is correct or not. There may be refunds one way or the other.

Q. Will you explain paragraph 6, particularly at the bottom of page 9? That is the paragraph providing for the payment of the guns during the production period.—A. Yes. I think I covered that very fully the other day, or M. Elliott did rather.

Q. Is the idea this: out of the first thousand guns produced, \$487 is taken as the figure for the cost of each of these first thousand guns?—A. Yes, but will you read the next page, the first four paragraphs. All this is part of the same paragraphs. The typing is rather confusing. May I read it as it was intended to read? "For guns delivered to the party of the first part out of the first one thousand guns produced \$487. When one thousand guns have been delivered and accepted by the British Government and/or the party of the first part a reconciliation will be effected between actual cost-plus profit as defined in section 4 and advances paid under (a) and (b) of this section." Now, that is the way it should read. I did not read the others, 3,000 and 6,000, but that is the sequence of the section and that was put in on the suggestion of the War Office, because there is much difference between the manufacture of a small unit like a gun and the manufacture of a big unit like aircraft where you can actually proportion the cost of the particular article. In the first stage of the transaction, the company makes its monthly progress statement and we pay 90 per cent of the costs incurred by it at the end of each month and 75 per cent of the 10 per cent profit on that. Then, when they deliver 1,000 guns to us or to the War Office it amounts to a cost according to this arbitrary figure of \$487,000 plus ten per cent on that less some of the items there. I am giving it to you in round figures, \$48,000. Let us assume that the maximum of \$535,000—

Q. The idea is you pay on account of the first thousand?—A. We pay on one—

Q. \$487?—A. Yes, only when the thousand guns have been delivered. We take as an arbitrary figure \$487,000 plus whatever profits would be chargeable on that, and I am giving by way of illustration \$48,000. That would make a total of \$535,000. After we pay them in respect of our monthly progress payment \$450,000—that is cost plus profit—we pay them the difference, which is a provisional balance of \$85,000. That clears the balance up to the end of the thousand guns. Then we carry on in the same manner for the next 3,000 guns and for the next 6,000 guns and for the next 2,000 guns.

Q. You stated the other day it was estimated that the total cost would be \$4,500,000, that you were working on that figure?—A. I do not remember.

Q. Was that Mr. Elliott?—A. Mr. Elliott may have said that and I may have. Again, by the way—

Q. The \$267,000 is based on the total profit of \$450,000 for the whole 12,000 guns?—A. I cannot tell you, but you will see by the exhibit I mentioned this morning, exhibit 58, how that \$267,000 was arrived at.

Q. The figures in paragraph 6 are supposed to be lower than the actual cost?—A. Oh, yes, very much so.

By Mr. Douglas:

Q. These figures at the bottom of page 9 have been estimated directly on the cost of the gun. As a matter of fact what they actually are, is the basis upon which unpaid balances will be paid in relation to delivery?—A. There are three stages of payment, monthly, provisional balance by reference to a unit of a thousand guns, and a unit of 6,000 guns, and then when all guns have been

manufactured and the actual cost then, and then only, determined, a final balance is struck.

Q. This does not represent cost?—A. No.

By Mr. Green:

Q. After all, an estimate of \$4,500,000 is not correct. That would work out at \$375 a gun, plus \$37.50 profit, plus \$15 royalty, would it not?—A. I am assuming your figures to be correct.

Q. A total of \$427.50

Mr. McGEER: Which would be considerably more than these figures here.

By Mr. Green:

Q. Yes. These are purposely lower.—A. So that we will have always some money in hand, I imagine.

Mr. McGEER: So there would be not only payments to the contractor during the preparatory period but during the period of operation. You see, your trouble started here, when you say under this provision something was paid to the contractor and then got back later on?

Mr. GREEN: That is a different thing altogether. I am dealing with (t) of 5, not with paragraph 6.

Mr. McGEER: It is quite obvious that these figures providing for provisional payment are based on amounts which will insure that there will be no over payment to the contractor.

The WITNESS: As I say, we would always have some money in hand.

Mr. BERCOVITCH: A protective measure?

The WITNESS: Exactly.

The CHAIRMAN: Are there any more questions, gentlemen?

Mr. GREEN: I have two more on paragraph 6.

By Hon. Mr. Stirling:

Q. There is one question I should like to ask Colonel Orde. I am referring to the Hahn draft which was discarded and followed by exhibit 3. Does the Hahn draft include a reference to the possibility of making Enfield rifles?—A. May I just turn up the exhibit? I cannot identify the process draft agreement that Hahn produced in my office, but I am certain that it was either exhibit 26 or exhibit 145.

Q. You discarded it and you started to create the first draft on which you worked?—A. Yes.

Q. Was the Enfield rifle inclusion in that?—A. Oh, yes, at the insistence of the ordnance officials.

Q. The master general of the ordnance?—A. The master general of the ordnance.

Q. It did not emanate from Hahn?—A. It might have been in his draft there. I can tell you that in a moment.

Q. That is what I want to know.—A. Yes. In the draft which is part of exhibit 26, which looks like the one, and may have been the one that he produced to me, it says here: "The party of the second part . . ." that would be the contractor, ". . . will set up in its plant tools, dies and machinery required to produce Bren guns or tentatively in accordance with either

(1) Plan 'a' which provides for a production of twenty-five hundred guns per annum single shift; or

(2) Plan 'b' which provides for a production of twelve hundred and fifty guns per annum single shift. The machines of this plant will also be capable of producing Enfield rifles and pistols."

[Colonel R. J. Orde.]

Q. That was Major Hahn's draft?—A. That was one that he had prepared in England. That is my understanding of it, and I give it for what it is worth. I understood from him that this contract had been prepared by him in England, based on a specimen contract of a similar type, one of the earlier ones that he had for aircraft, which was over in England with General LaFleche and the defence department delegation at the Imperial Conference. This contract had been prepared after some discussion with them and with the War Office, and that was how it emerged and it had that in it. But, as I said, we ignored it completely, and to my knowledge the inclusion of this Enfield rifle and pistol clause, as far as I was concerned, came directly at the insistence of the master general of the ordnance staff.

By Mr. Green:

Q. I should like to return to paragraph 10 on page 11.—A. Section 10.

Q. The suggestion was made the other day, or I understood the suggestion to be, that Canada could take whatever number of guns she wanted of the whole 12,000; that is, sort of override the British contract?—A. That was the intention. This had to be inserted, Mr. Green, so as to protect the contractor as between the contractor and ourselves with regard to our claiming priority in disposal of the guns. The fact remains that we have complete discretion as to whether we will get the first 500 or the first 250.

Q. It does not say that.—A. Oh, yes.

Q. It says, "and other articles manufactured by the party of the second part for the party of the first part." It does not say "any guns manufactured or all guns manufactured by the party of the second part."

Mr. McGEER: "The party of the first part shall have complete control of the disposal, as well as priority in delivery, of all Bren guns and other articles manufactured . . ."

Mr. GREEN: Read the rest of it.

Mr. McGEER: "...and other articles manufactured by the party of the second part for the party of the first part."

Mr. GREEN: I am referring to these qualifying words "for the party of the third part."

Mr. BERCOVITCH: That does not refer to Bren guns. It gives the government complete priority.

Mr. McGEER: You overlooked and ignored the meaning of the words "all Bren guns." If the word "all" had not been in there your interpretation might have been correct.

Mr. GREEN: It might be correct yet, with all due deference.

Mr. McGEER: There are some things fairly obvious....

Mr. GREEN: Even to dumb people.

Mr. McGEER: —even to an elementary student of law like myself.

The WITNESS: This will completely answer your question, Mr. Green. The corresponding clause in the War Office contract says: "The party of the first part"—that is the War Office—"shall, subject to the provisions of said recited agreement with His Majesty the King in the Right of the Dominion of Canada, have complete control of the disposal as well as the priority in delivery of all Bren guns and other articles manufactured by the party of the second part for the party of the first part." So we have—

By Mr. Green:

Q. We think we have.—A. We think it was the intention that we would have. We anticipate no trouble there at all.

Q. I should like to draw your attention to the last part of paragraph 11 on page 12. Have you any standard at all by which it can be determined what are the defects that arise in manufacturing a Bren gun?—A. I covered that fully in my evidence of the first day. Engineering standards will be as laid down at Enfield.

Q. No, this deals with——A. Rejects?

Q. Rejects that are not such as normally occur in the manufacture of Bren guns?—A. I thought I had answered that when replying to a question from Mr. Homuth. The Enfield Process Manual gives the proportion of rejects that are liable as a charge in the contract, and anything over and above that becomes a charge against the contractor.

Q. Do you know what they are?—A. I cannot give you that. That is a matter for the technical officers.

Q. I should now like to refer you to paragraph 19 on page 14. Why do not you follow the practice in this contract of getting some money put up as a deposit to secure the due performance of the contract? I believe that is a prominent feature of all your defence contracts?—A. No, sir.

Mr. McGEER: Was not that question fully answered the other day?

Mr. GREEN: Not the question of deposits; we were dealing with the question of bonds.

The WITNESS: I cannot answer that; that would have to be answered by the deputy minister or the other officials who were actually carrying on the negotiations.

By Mr. Green:

Q. You said you could not get a performance bond?—A. Because of our experience in another contract similar to this where we could not get a performance bond we did not try to get a performance bond here.

Q. Why did you not ask for a deposit?—A. I cannot answer that. That is a matter for somebody else in the department.

By Mr. McGeer:

Q. Is there any provision for a deposit in the British War Office contract?—A. No, sir.

By Mr. Douglas:

Q. Have you any other contract similar to this one calling for a deposit?—A. One.

By Mr. MacNeil:

Q. With relation to the production of what article?—A. Aircraft.

By Mr. Green:

Q. How much deposit is required?—A. In that contract? Ten per cent of the estimated cost.

Q. Do you have many contracts in the department in which you require ten per cent deposit?—A. Did I understand you to say "did we have many contracts"? The usual practice is, and I have seen it in many contracts, on a firm price basis, to ask each tenderer to put up ten per cent deposit of the amount of his bid.

By Mr. Factor:

Q. That is competitive tenders?—A. Competitive tenders.

Mr. BROOKS: There was no tender in this contract, so it was not necessary.

The WITNESS: Well, it was not asked for.

[Colonel R. J. Orde.]

By Mr. Green:

Q. Do you not ask for them in cost-plus contracts? Or have you done it in only one case?—A. We did not ask for it in that particular contract I mentioned. We made it as part of our bargain that we would not deal with him unless he put up the ten per cent.

By Mr. McGeer:

Q. In the normal ten per cent plus contract where you have a supervisory control, and in which you are really a partner with a firm, is it usual to ask for a deposit?—A. We have not asked for it in any case.

Q. It is not the usual practice in contracts of this kind?—A. It is most unusual to ask for it.

Mr. DOUGLAS: What is the use of talking about the usual practice in cost-plus contracts when there have been very few of them?

Mr. McGEER: We are following the policy that was laid down by Great Britain. In Great Britain they have been going to private enterprise in this particular kind of development. It is not a new thing at all. We are really putting into effect the British policy. That is the policy that has been adopted by this government.

Mr. GREEN: The British policy is a little different because they do manufacture practically all their requirements, to some extent, in their own arsenals.

Mr. McGEER: What we have here is a contract signed by the Canadian government only when the British War Office had approved of the terms of the contract. That is perfectly clear from the minutes of the interdepartmental committee.

Mr. GREEN: What I was pointing out was we are not following strictly the British policy because there the situation is so much different from ours.

Mr. McGEER: Do you know what the British policy is? Their policy includes in addition to their own arsenals, a concentration of production, a very wide distribution of production all over England and the bringing into association with public production practically all the available British concerns that can co-operate.

Mr. GREEN: In addition to that, they have checks that we have not.

Mr. McGEER: In this particular instance we have both the benefit of the checks and the supervision of the operation of the Enfield plant which are at our disposal and have been at our disposal all the way through.

Mr. GREEN: The checks are a long way off.

Mr. DOUGLAS: I submit this committee has had no evidence of what the British procedure is.

The CHAIRMAN: I wonder if this is your point, Mr. Green; do all cost-plus contracts have a deposit, and do regular tender contracts have a deposit? Is that it?

Mr. GREEN: I was asking if in any of his cost-plus contracts he had a deposit. I believe Colonel Orde answered previously that in one case they had a deposit.

The WITNESS: One case only out of many.

By Mr. Green:

Q. One out of nine?—A. There are more than nine cost-plus contracts, but in only one of these have we got a deposit.

By Mr. Brown:

Q. Do you know whether it is the policy of the British department to advance money or to purchase machines for private contractors as we are doing here?—A. I cannot answer that.

Mr. McGEER: They are doing it in this contract. You know that.

Mr. BROWN: Yes, but apparently it was instigated from this end to a great extent.

By Mr. McGeer:

Q. Do you know whether it is the practice of the War Office to make as generous donations for the production of armaments to any other dominion, as they have made in this contract to Canada?—A. Never one like this before.

Mr. GREEN: No, I guess not.

Mr. BROOKS: That term "generous donations" is very good.

Mr. McGEER: Of course it is a generous donation. They are paying for one-third of the machinery and we are getting the machinery ourselves.

The CHAIRMAN: I believe we are getting just a little bit out of order if the members of the committee are going to start questioning each other.

Mr. GREEN: We do not mind being instructed but we hate to have it rammed down our throats.

The CHAIRMAN: I think a little humour is a good thing, but I agree with you there when we have a witness on the stand.

By Mr. Green:

Q. I should now like to deal with paragraph 21 which has to do with protection of the plant.—A. Yes, sir.

Q. It was the intention that the government should be responsible for protective measures against sabotage?—A. That whole question is now in the hands of the Commissioner of the Mounted Police, and I believe in the interests of secrecy and in the interests of the state it would be well not to mention anything about that now. It is all being developed at the moment.

Q. In other words, the Inglis company is not responsible for protecting its own plant?—A. I can answer that. The Inglis plant is going to be responsible for its own protection. This merely gives us the right to put in police if we wish.

By Mr. McGeer:

Q. Surely if the government desires to put special protection in there they have the right to do that?—A. The decision of the department in respect of all contractors manufacturing armaments is that the contractor himself will be responsible for his own internal security, contra-espionage and contra-sabotage.

By Mr. Green:

Q. Internally?—A. Within his plant.

Q. Is the government responsible for anything outside?—A. Not necessarily. The provincial police or the ordinary—

By Mr. McGeer:

Q. In Toronto it would be the city police?—A. Or the city police.

Q. This provision merely gives the department or the government of Canada the right to have their own police in there if they see a necessity for that kind of thing?—A. That is undoubtedly what is meant there.

Q. It does not absolve the Inglis company from protecting their own plant?—A. No.

The CHAIRMAN: Are there any other questions in connection with that clause of the contract? We are finished with the present witness. As it is ten minutes to one, is it your desire to start with Mr. Elliott?

[Colonel R. J. Orde.]

Mr. MACNEIL: No; let us adjourn.

Mr. DOUGLAS: Mr. Chairman, I have a question to ask. We were talking about \$20,000 and certain vouchers. I notice they are referred to as being in exhibit 262, which is now in the possession of the clerk of the Privy Council. Will those vouchers be put in the possession of the clerk of this committee? Is that what Mr. Green meant when he asked his question?

The CHAIRMAN: What was the question?

Mr. DOUGLAS: Mr. Green asked a question about the amount of money that was paid, or was to be paid, out of that \$20,000 clause. I wondered if we would be given possession of the vouchers or a list of the vouchers that are in exhibit 262, which is now in the hands of the clerk of the Privy Council and is not one of the exhibits here.

The CHAIRMAN: I could not say. Do any of the members of the sub-committee wish to have a meeting before we decide on our next meeting?

The committee adjourned at 1 o'clock to meet Tuesday, April 4, at 11 a.m.

Mr. Doe
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*Canada. Public Accounts. Standing
Committee. 1939*

SESSION 1939

(HOUSE OF COMMONS)

(STANDING COMMITTEE

ON

(PUBLIC ACCOUNTS)

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN

AND OTHER ARMAMENT CONTRACTS

No. 5



TUESDAY, APRIL 4, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

MINUTES OF PROCEEDINGS

TUESDAY, APRIL 4, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Black (*Chateauguay-Huntington*), Blanchette, Bothwell, Brooks, Ferland, Fraser, Golding, Green Homuth, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), Needham, Purdy, Rickard, Stewart, Stirling, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue.

As instructed at the last meeting, the clerk distributed to members of the Committee copies of the agreement between the Government and Montreal Construction Supply and Equipment Limited, dated November 17, 1937.

At the request of Mr. Green:

Ordered,—That the clerk procure the vouchers referred to in Exhibit 262 filed with the Royal Commission on the Bren Machine Gun Contract, said to be now in the custody of the Clerk of the Privy Council.

Mr. Elliott was recalled, heard and questioned.

Copies of the following statements, produced by Mr. Elliott, were distributed to members of the Committee:—

- (A) Analysis of the Bren Gun Contract;
- (B) Analysis of the financial phases of the Bren Gun Contract;
- (C) Analysis of the financial phases of the Bren Gun Contract (revised).

Ordered,—That the statements filed by Mr. Elliott be printed as Appendices "A", "B" and "C" to this day's Minutes of Evidence.

The Chairman stated that the documents requested by Messrs. Homuth and Green at the meeting of March 28 had been received from the Department of National Defence and would be available to members of the Committee for inspection in Room 504.

The Chairman also informed the Committee of the replies received to certain questions, respecting the Bren machine gun contract, asked by Mr. Green at the meeting of March 30.

At the request of Messrs. Green and McGeer:—

Ordered,—That the clerk procure the following information with respect to claims under section 3, paragraph (c), clause 1, of the Bren machine gun contract:—

- (a) What claims have been made to date;
- (b) What claims have been approved;
- (c) What claims have been rejected.

The Committee adjourned until Thursday, April 6, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

April 4, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order we shall proceed. Mr. Fraser Elliott will be the witness this morning.

Mr. HOMUTH: Before we proceed with Mr. Elliott may I say I enquired as to whether a statement of the expenditures up to date had yet been turned over to the committee, and I have been informed that it has not. The clerk advises me that it has not been turned over. I believe a special effort should be made to get this statement for the committee. I am hoping, in fact I understand, that the statement will also include a statement relative to the expenditure of the sum of \$20,000 which is provided for in the first clause of the contract.

Mr. MACNEIL: In the list of exhibits furnished to the committee there is a notation made to the effect that a certain exhibit is in the possession of the clerk of the Privy Council. I understand the clerk of the committee may have some difficulty getting that unless authorized by the committee.

The CHAIRMAN: In answer to Mr. Homuth, may I say that we probably will have that statement this morning. They promised to deliver it during the meeting this morning, and the clerk tells me that the accounts you mention will be included.

Mr. GREEN: All the statements we asked for?

The CHAIRMAN: Just what you asked for, a list of the names and the amounts and the material.

Mr. MACNEIL: And the vouchers submitted in connection with the \$20,000?

The CLERK: For any payments and commitments that have been made.

Mr. MACNEIL: There is an exhibit referred to not completely filed with the committee. I believe it is 262. That exhibit shows the vouchers submitted are in the possession of the clerk of the Privy Council.

The CLERK: My understanding is the vouchers of Major Hahn were returned. Payment was refused and they were returned.

Mr. MACNEIL: Can we not get the complete exhibit?

Mr. BROOKS: Will we have a list of the vouchers that were refused payment?

The CHAIRMAN: There will be some that were paid. They were not all refused.

The CLERK: My understanding is they were.

Mr. McGEER: They are talking about the vouchers for legal and preliminary expenses.

The CHAIRMAN: Is there anything else before we proceed?

C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, recalled.

The WITNESS: Mr. Chairman, on the last occasion that I spoke to the contract I intimated that I had received from the secretary a request that you be furnished with an analysis of the agreement. On the last occasion I dealt

with the contract as an obligation existing between the two parties particularly with regard to its legal and contractual side. I shall now analyse it from its financial side, and in order that we may be kept reasonably close together and make progress, I have taken the liberty of drawing up a statement consisting of five pages. If I may deliver that we shall use it as a basis for our discussion. To these five pages will be attached an analysis of the contract as a whole in actual figures, costs, percentages in dollars of profit. These sheets which have been distributed to you were just received by me. I have not read them over. They have just come off the mimeograph, and if there are any typographical errors you will have to put up with my corrections as we go along.

The financial divisions of the Bren gun contract fall into three parts. You are all reasonably familiar with this contract now, so it is hoped the printed statement will carry its full meaning. The three parts are,

- (1) The preparatory period of two years;
- (2) The production period of four years; and
- (3) The series of special clauses.

(1) The first part, the preparatory period, has two subdivisions. The first is, costs on which a profit is not paid. That is the preliminary expenses of \$20,000 and capital machinery of \$1,108,000. Secondly, costs on which a profit is paid; that is, preparatory overhead. \$124,000 and tools, dies, jigs, etc., \$420,000.

(2) The second part of the contract, or the production period, also has two subdivisions. 1, the cost on which a profit is paid; that is the cost of production of guns, \$3,985,000; 2, cost on which a profit in fact is not paid, \$1,307,000; that is, on the cost of spare and component parts, because the \$267,000 maximum profit has already (by estimate) been attained on account of previous costs.

Before we come to \$1,307,000—

By Mr. MacNeil:

Q. Would you now or later explain that more fully?—A. Oh, yes. It is thoroughly understood that we are just going over the picture as a whole, and then we will come back and go over it in detail.

(3) The third part is special clauses, that is

- i. Stock selling prohibition. (Sec. 1)
- ii. Standard cost clause. (Sec. 6 (a))
- iii. Lien clause. (Sec. 8)
- iv. Rejection clause. (Sec. 11)
- v. Insolvency clause. (Sec. 14)
- vi. Cancellation clause. (Sec. 18).

These sections will be dealt with separately.

Now, common to parts 1 and 2—that is, common to the preparatory and production periods—are costs mentioned in the now famous section 5. These costs fall into three categories.

The first category is those costs incurred contractually by the John Inglis Company with third parties, which consist of (a) employees, and (b) complete strangers to the company. That is, employees would include (i) executive officers; (ii) skilled engineers and professionals; (iii) clerical and labour. Strangers would include (i) vendors of tools, dies, jigs and/or material of all kinds required to complete the contract; (ii) persons to whom royalty and interest is payable (if any); (iii) public utility services and general service

[Mr. C. Fraser Elliott, K.C.]

charges. These general service charges would be trucking, hauling, and the like.

The second category of expenses in section 5 are those costs incurred by process of public law, as opposed to those contractually incurred in category 1. These are costs incurred by process of public law, so far as they are applicable to the contract; that is, assessments, provincial and municipal, labour laws, dominion and provincial; customs duties and sales taxes.

The third category of costs in section 5 are those costs incurred through natural causes; that is, by way of depreciation, repairs and maintenance.

I should like to analyse section 5 in the light of all these costs that are to be incurred. Section 5 provides that all costs shall consist of the following items "to the extent that they are incurred in the performance of this contract." Under section 5 at the right hand of this page you will observe that the paragraphs are set out, and they will run in alphabetical order until you get down to (o) and (d). (d) is put off to the right, because I deal with it later on. I want you to know we are going to deal with every paragraph in the section.

The items that are mentioned in the section are on the extreme left, and the prerequisites for payment in the centre column.

Royalties—require "the prior written consent of the" department. (a)

Wages—"subject to the approval of the Minister of Labour." (b)

Salaries—"subject to the approval of the government and to the extent approved shall be allowed as a cost in connection with this contract and be dealt with accordingly."

Any "excess shall not be allowed as a cost within the terms of this contract." (c) and (f)

All this centre column is a collection from the contract. Engineering services are "subject to the prior written approval of" the government. (d)

Materials—are "provided always that the price paid for all materials . . . shall be subject to the approval of" the government. (g)

Repairs and maintenance are—"all subject to the prior written approval of" the government. (i)

Travelling—"with the prior written approval of" the government. (j)

Rentals—are "subject to the prior written approval" the rental value may be paid when "for reasons beyond the control of the" contractor the plant is actually shut down. Rental otherwise paid is to be refunded at conclusion of the contract. (k)

Depreciation—on that portion of the set value of \$280,000 "actually used in the performance of the contract." (m)

Legal costs—none "unless there has first been secured the written consent of" the government. (p)

Interest—on money borrowed to build "plant which may be required and approved by the" government. (r)

Omnibus general costs clause—only those "approved as necessarily incurred in the preparation and performance of this contract." (s)

"General cost items referred to above in sub-paragraphs 5 (c), (e), (h), (i), (n), (o) and (p) will in respect to the extent that they are incurred in the proper carrying out of this agreement, be allowed in such amounts as the (government) may approve." (t)

If you will look back at page 3 at the extreme right you will see that I did not mention these figures (d), (h), (k), (m) and (p). Therefore on page 4 I am now sweeping up those that were not mentioned, and I say: The following items, not mentioned above, namely:

- (d) Assessments;
- (h) Public service and supplies;
- (k) Gun tests;
- (m) Customs and sales taxes; that is, those that are paid out and paid in. Really it is a wash-out transaction.
- (p) Taxes on land and buildings;

they are all governed by the opening part of section 5 and are allowed only (now I am quoting the opening part of section 5) "to the extent that they are incurred in the performance of this contract."

Such costs are not subject to approval. They are mostly incurred by reason of public law or necessity and if they relate to the contract as an overhead expense should be paid.

Now we come to price of said guns and parts. The price is composed of two elements:—

- (a) all costs plus; and
- (b) percentages on certain costs.

That is a little different there. We struck out "and"; all costs plus percentages on certain costs. The percentages on certain costs are, by sections 3 (e) clause (5), 10 per cent of cost of tools, etc.; that is dies, jigs and so forth. Ten per cent of the cost of tools purchased by the contractor and 10 per cent of cost of tools manufactured by the contractor, and 10 per cent of cost mentioned in clause (4), and clause (4) mentions section 5. That is, such costs as are set out in section 5 of the contract which are "properly chargeable under this contract. . . . up to the date of commencement of manufacture." And per section 4 (b), "10 per cent of all costs." Now I am going into section 4 (a). ". . . properly incurred in connection with the manufacture of the said guns and spare or component parts," except the following, (on which 10 per cent will not be paid):—

1. Sales tax;
2. Customs duties;
3. Royalties;
4. Interest;
5. Depreciation.

All percentages, however, are controlled by the dominant provision, namely, that it is. . . . "expressly agreed that the total amount (of profit) payable under this contract. . . shall not exceed \$267,000." Therefore in reality the "price" is,—all costs plus \$267,000; unless the costs on which a percentage is payable fall below \$267,000. The estimates make it very plain that this cannot happen.

The financial phases of the Bren gun contract are more particularly set out in the next detailed statement, which has just been delivered to my hand and which summarizes all that has been said before.

If you will look at this financial statement you will find that it is in two parts. First, to ascertain the limited costs on which a profit is payable, and the profits (that is, the total profits) in dollars on each contract, the Canadian and the United Kingdom contract. There is the preparation period of two years,

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and under column 1 are listed all the costs, that is, the preliminary expenses of \$20,000; capital machinery, \$1,108,000; preparatory overhead, \$124,984; tools, dies, jigs, etc., \$420,749. Those are the costs that are to be divided two-thirds and one-third.

Then we come into the production period of four years, and the production cost of guns is \$3,985,477 to be divided 7/12 and 5/12.

In columns 3 and 4 are the suggested profit percentages in the contract as submitted to the interdepartmental committee by letter dated the 31st of December, 1937. You will observe that there was to have been no profit on the \$20,000. There was to have been five per cent on the capital machinery of \$1,108,000 and ten per cent on the preparatory overhead figure of \$124,984; also ten per cent on the figure for tools, dies, etc., of \$420,749. During the production period it was nine per cent, or a total in dollars of \$468,666. That was to have been the profit according to the contract as first submitted to the committee. That profit as summed up in column 2 would have been 8.28 per cent.

By Mr. Green:

Q. That is as submitted by Major Hahn?—A. That is submitted by letter of the 31st of March from Colonel La Fleche as deputy minister to the interdepartmental committee for their consideration.

Q. The 31st of December or March?—A. The 31st of December.

By Mr. MacNeil:

Q. This is on a production of 12,000 guns?—A. Yes; that is exactly so. I will read the letter if you want it.

By Mr. McGeer:

Q. What is the exhibit number?—A. I have it marked on my copy as exhibit 47, but I did that while standing in the witness box and it might be wrong, although I do not think so. This is a letter signed by Mr. Charles Burns for the chairman. Therefore, I have to correct what I said by memory that it was Colonel La Fleche's letter. It is Burns' letter signed for the chairman who was Colonel La Fleche. It reads:—

There will be a meeting of the interdepartmental committee on the control of profits on government armament contracts, in the office of the chairman, the deputy minister of national defence, at 11 a.m., on Wednesday, January 5, 1938, and it will be appreciated if you will arrange to attend at that time. I am enclosing herewith a copy of a memorandum from the master-general of the ordnance, and a draft copy of a proposed agreement between His Majesty the King and John Inglis Company Limited, for the manufacture of Bren machine guns, which will be for consideration at this meeting.

The memorandum enclosed by the master-general of the ordnance is a lengthy document, and is exhibit 42. On page 2, the third paragraph, you will find the following:—

After consideration of various forms of contracts, the company has now submitted a draft contract which is considered to be acceptable, subject to the war office agreeing to place an order in Canada for the 5,000 guns previously mentioned.

By Mr. MacNeil:

Q. What are you reading from?—A. A memorandum of Colonel Dewar attached to the letter, exhibit 47, which I read. I am quoting the seventh

paragraph, which simply means that Colonel Dewar, under the chairman's letter as drafted by Burns, sent the contract to the interdepartmental committee and considered it at that time to be in more or less acceptable form.

Coming back to the financial statement—

Q. Was it your intention to read the basis of the contract as outlined in the memorandum?—A. No; I will do it if you wish.

Mr. McGEER: I think it would be just as well.

By Hon. Mr. Stirling:

Q. Was that the beginning of the work of the interdepartmental committee, when they first received this draft?—A. That is exactly correct.

Q. In the office of the master-general of the ordnance?—A. The first time the interdepartmental committee met the contract at all. I have been requested, Mr. Chairman, to read exhibit 42.

Mr. MacNEIL: Just the paragraphs determining the basis.

Mr. McGEER: I think if you are going to read any part of it you should read it all.

The WITNESS: What shall I do, read the whole thing? There are four pages.

The CHAIRMAN: You want the whole thing read?

Mr. McGEER: In view of the fact that this is the start of the interdepartmental committee's work, I think, Mr. Chairman, it might be as well to put it on the record.

The WITNESS: The exhibit is there.

Mr. MacNEIL: With your consent, it might be put on the record, and it would not be necessary for Mr. Elliott to read it.

The CHAIRMAN: Do you wish the whole exhibit put in the record?

Mr. MacNEIL: Yes.

Mr. McGEER: I move, Mr. Chairman, that exhibit 42 be incorporated in the record, and then you will have everything.

The CHAIRMAN: Does that meet with your approval, Mr. MacNeil?

Mr. MacNEIL: Yes.

The CHAIRMAN: You do not want just these four paragraphs read?

Mr. MacNEIL: No.

The CHAIRMAN: Very well, exhibit 42 will appear in the record:—

MEMORANDUM

To:—

MASTER-GENERAL of the Ordnance

OTTAWA, Dec. 29, 1937

Production of Bren Light Machine Guns in Canada. . . .one of the modern types of weapons recently introduced by war office and by other members of the British Commonwealth is the Bren light machine gun. This gun was invented in Czecho-Slovakia and the rights for production in government factories in England have been procured by the war office.

Preparation for the production of this gun in England has now been made, but the advice which has been received here is to the effect that it will take years on the proposed production basis to meet the requirements of England, so that Canada cannot hope to get any deliveries of Bren guns for training or equipment purposes until war office requirements have been met. Should a national emergency arise in the meantime, Canada would be very badly off and would require a period of approximately two years to instal a plant with which to make the guns.

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The total Canadian requirements of Bren guns is 7,000 and it is recognized that for the production of this quantity of guns the installation and operation of a complete plant would prove very expensive, but, should the war office agree to placing an additional order with Canadian contractors selected to produce Canadian requirements, it is possible that a reasonable cost of production can be arrived at.

With this in view, the general manager of the John Inglis Company, Toronto, proceeded to England about a year ago and began negotiations with the war office and with the other government officials responsible for the re-armament program in England towards the production of Bren guns in Canada for war office requirements. These negotiations have resulted in an expression of interest on the part of war office officials and it is believed that, if, with the increased cost of labour and material in Canada, a satisfactory financial arrangement can be made and, subject to the Canadian government approving production of 7,000 guns, that the war office will be prepared to give an order for the manufacture of 5,000 Bren guns in this country.

It is understood that the main consideration expressed by war office in considering the ordering of Bren guns in Canada is that manufacturing establishments in England are now so vulnerable to attack from the air that the establishment of a small arms plant outside the British Isles is to be desired, even to the extent of increased costs for the supply.

During the past year the general manager of the company has made three trips to England, has spent five months in that country, employing, while there, certain engineering and clerical assistance in order to obtain the necessary information on which to base an estimate of production in Canada and on which to frame a suitable contract. On his arrival back in Canada he and the representatives of his company have made a complete survey of the market as regards raw materials for the production of the required guns.

After consideration of various forms of contract, the company has now submitted a draft contract which is considered to be acceptable, subject to the war office agreeing to place an order in Canada for 5,000 guns previously mentioned.

The basis of this contract must, of necessity, be:—

- (i) that the department will provide machine tools, fixtures and gauges as much of the equipment required is of such a nature that it cannot be readily adapted for commercial purposes, consequently, no provision is made in the contract whereby the contractor is allowed any depreciation on the machines nor any profit on the depreciation as is the case in similar contracts where the contractor provides his own plant;
- (ii) that since the proposed contractor is required to plan and design a complete new plant for the production of these guns, the usual commercial practice of allowing a percentage on the cost of the plant should be followed;
- (iii) that since the proposed contractor has already expended a considerable amount of money and has held his plant open from other commercial enterprises for a period of nearly a year, some financial recognition should be made as compensation;
- (iv) that the manufacture of the machine gun, fixtures and gauges should be undertaken by the company on a cost plus basis.

It is anticipated that the preparatory period before production of guns commences would be about two years.

At the outset it is desired to stress the fact that, due to the very close tolerances, the manufacture of Bren machine guns is of a very exacting nature requiring constant and careful supervision, otherwise a contractor may rapidly run into very considerable losses. All parts must be interchangeable within very low limits, and not only must they be interchangeable with parts manufactured in Canada but also, they must be interchangeable with parts made in England, since war office supply is involved in the contract.

Perhaps it would be well to state here the experience of the Canadian government during the early days of the Great War in connection with the production by the Savage Arms Corporation of Lewis Machine Guns. In the supply manufactured by that company, very large quantities of parts were not interchangeable with those made in England by such firms as Birmingham Small Arms Company. Great difficulty was experienced in maintaining these guns due to non-interchangeability of parts. Efforts were later made to carry out alterations on certain of the American made guns but satisfactory interchangeability was not achieved. The net result has been that to-day Canada has in stock Lewis machine guns made by two different companies and it is necessary to maintain separate stocks of repair parts to maintain these weapons. In an emergency, the maintenance of the American made guns would again present a problem.

It will be observed that during the production period, the draft contract provides for a payment of 9 per cent profit. When the usual federal government income tax has been subtracted, it is understood that the net profit to the company will be 7.65 per cent.

During the preparatory period of approximately two years, the company would be engaged in the manufacture of jigs and gauges. This work would be carried out to a large extent in the normal company plant on a cost plus basis. The estimated profit during the preparatory period per gun is \$4.50. Irrespective of where or how guns are obtained, it will be necessary to obtain the jigs and gauges and to incur overhead expenses in connection with setting up the plant for production.

The estimated profit per gun during the production period is \$30.

As it is proposed that the plant installed should be amortized over the period of the contract, the war office, if an agreement is reached by the contractor, would assume 5/12 of the cost of the machinery and equipment, or in some other mutually acceptable manner contribute towards the cost of the plant. It would be an accepted principle of the arrangement with war office that the Canadian government would hold the plant, jointly purchased, for use by both governments on completion of the proposed contract. In addition, the war office would expend in Canada in wages, material and profit, exclusive of sales tax, an amount estimated at \$1,500,000.

It is not considered that Bren guns can be produced in the government-owned and operated factory as cheaply as in the plant of a civilian contractor. Many features enter into a comparison of costs, for example:—

- (a) The cost of machinery would be the same in each case;
- (b) The capital expense of erection of a suitable building would greatly increase costs;
- (c) The overhead expenses of a civilian plant would be spread over the normal production of the company as well as over Bren gun costs;
- (d) Civilian business organizations are more highly specialized in production methods and have more freedom of action in developing production.

[Mr. C. Fraser Elliott, K.C.]

Rental rates and depreciation on buildings will be subject to confirmation by officials of the Public Works Department. As time is a factor, it is desired to give consideration to this contract, subject to such revision as may be necessary on receipt of the report from the Department of Public Works.

The general manager of the company is desirous of proceeding to England with the least possible delay to finally negotiate the war office contract. Before he leaves, it is considered advisable to inform the war office as to the terms under which the Canadian government might consider placing an order with this company.

(Sgd.) D. E. DEWAR,
Colonel,
D.C.E. & M.E.

Deputy Minister:

Report submitted for consideration.

(Sgd.) CLYDE CALDWELL,
Major-General,

Master-General of the Ordnance.

29-12-37.

The WITNESS: Coming back to the statements, columns 3 and 4, the upper part, are simply a reflection in figures of what the contract, as originally submitted to the interdepartmental committee, contained by way of percentage of profits and dollars of profits.

By Mr. MacNeil:

Q. When you say "the contract," you include the department?—A. The interdepartmental committee made this contract, and this is what it contains shown in percentages and dollars.

Q. But that indicated the intentions of the department at that time?—A. Exactly. Column 5 shows the percentage after the interdepartmental committee had effected adjustments. The first change pertains to capital machinery. The 5 per cent on the cost of that was struck out and nothing was substituted.

By Mr. Homuth:

Q. May I say, Mr. Elliott, at this point, that that was struck out because the government determined to purchase all the capital machinery. Was that the case?—A. That was the condition when the contract was delivered to the interdepartmental committee.

On preparatory overhead and the purchase and manufacture of tools, dies and jigs, the percentage remained the same.

The percentage on the cost of production was raised from 9 per cent to 10 per cent.

The total profits after adjustment are shown in column 6, and you will observe that they add up to \$450,000. That \$450,000 is 7.95 per cent of \$5,659,210.

By Hon. Mr. Stirling:

Q. What does the "X" mean?—A. The "X" indicates, as you will see at the very top right-hand corner, that it is \$3,121 below the actual 10 per cent of the costs, because we arbitrarily struck an amount out to make it come evenly to \$450,000. Ten per cent of the production cost would amount to \$398,547, and we arbitrarily struck out \$3,121; and that is how it comes out evenly as the profit that can be made by the contractor on both contracts.

Columns 7 and 8 show how the Canadian portion of profits are arrived at, and what are payable. Of these profits just mentioned—\$450,000—we pay $\frac{2}{3}$ in respect of the preparatory period, and we pay $\frac{1}{12}$ of the production costs. So the total profit would be \$267,000 that Canada has to pay. If you turn to columns 9 and 10 you will find that England pays \$183,000 and the two make up the total profit of \$450,000.

That is a statement, as the top shows, of the limited costs on which a profit is payable, and the total profits in dollars that are payable on each contract.

Now we come to the second part of the statement, and it is designed to ascertain the total costs and percentage the total profit is thereof.

Column 1 is a reproduction of column 1 above, except for spare and component parts, which is estimated at \$1,307,000. Why that comes in there at this time is as follows: When the interdepartmental committee were considering the contract, the spare and component parts were an unknown quantity. That was so expressed by the technical officers of the Department of National Defence. Spare and component parts were unknown both to them and to England at the time. It was a matter of discussion and negotiation and consideration as to just how much would constitute spare and component parts. Therefore, they could not estimate on that. Not having the estimate before us, we determined not to give a profit on that which we did not know; hence we gave this percentage mentioned in column 5 of the upper part of the statement in respect of those expenses which we knew, or knew as closely as experts could estimate them. And we said, "We will give you that percentage on those profits, and that is the basis of arriving at the \$450,000, or Canada's share of \$267,000. Subsequently the spare and component parts became the subject of definition and determination, and it was appended to the contract in accordance with the terms of the contract, because the then schedule had a pro forma schedule, as you all know, that had to be substituted later on. It was substituted later on, and then the experts calculated what the spare and component parts would be, and that is how the figure of \$1,307,000 was arrived at.

By Mr. Green:

Q. That means that the estimated total cost of 12,000 guns is about \$7,000,000?—A. And spare and component parts—about \$7,000,000. You have to add in both. You just mentioned guns.

Q. But the total cost to Canada is about \$7,000,000?—A. No, the total cost to secure 12,000 guns is about \$7,000,000.

Q. To Canada and Great Britain?—A. Quite so. That is correct.

By Mr. Homuth:

Q. In connection with spare and component parts, does that mean the extra barrels or parts that wear readily?—A. No; that is repairs. Spare and component parts mean an extra barrel and twenty-four clips—those things that have the bullets in them. You take one out and shift another one in. There are twenty-four of them. That means a few extra springs in connection with the firing pin. They are very small. Component parts or spare parts, I believe, is a better term. There is one extra barrel and twenty-four clips plus some incidentals.

By Mr. MacNeil:

Q. And tripod?—A. It is not a part; it is a separate item.

By Mr. Green:

Q. The tripod is not included in that figure?—A. No.

[Mr. C. Fraser Elliott, K.C.]

By Mr. Brooks:

Q. To make the gun complete you would need all those spare and component parts?—A. Oh, yes. You could not go into the field without the extra clips.

By Mr. Green:

Q. How much extra is the tripod?—A. I do not know.

By Mr. MacNeil:

Q. Is the schedule of spare and component parts a portion of the contract?—A. It is. If you do not mind, before we get into that discussion we will get through with this and then we will come back and get the whole picture.

By Mr. McGeer:

Q. Could you give us a segregation of Canadian and British profits?—A. If we can go on with the financial statement, that is the next thing in it.

Of those total costs in column 3, you find the United Kingdom share those costs, and the one-third shows how it is arrived at until you get down to the five-twelfths of the production costs.

Then you go into column 4 and you find the costs and assets of Canada. I use the word "assets" advisedly there because we are getting this machinery, and after it has suffered its wear and tear by way of depreciation we still have a residual asset value. So I call that "costs and assets of Canada." That will be found in column 4.

By Mr. Green:

Q. What does the total come to?—A. It comes to about \$3,400,000.

Q. It is over \$4,000,000, is it not?

The CHAIRMAN: You are taking the spare and component parts, are you not, Mr. Green?

The WITNESS: I am leaving out the spare and component parts.

By the Chairman:

Q. Without that \$1,307,000?—A. Yes. If you go to column 5 you will notice that I have taken four years' depreciation off our machinery as the cost to Canada. We own the machinery and it is functioning for four years. It is being installed for two years, so I did not take depreciation on machinery that you are just moving in, but the machinery that is used for four years. I have taken it at 10 per cent; and therefore I say the real cost to Canada is in column 6.

By Mr. Green:

Q. Depreciation comes off during the preparatory period too, does it not?—A. That is a matter of opinion. If you are moving in machinery and you are not using it when you are setting up your business, do you take off 10 per cent as representing that which the machinery has suffered? In other words, has the machinery lost 20 per cent or one-fifth in the two years during which you are moving in? I would suggest not; but it is a matter of opinion.

Q. Is that not covered by paragraph 5 (o) of the contract at page 8?—A. What does it say?

Q. It deals with appreciation.—A. Oh, this is governed by depreciation, absolutely. But this is machinery that we are going to buy. That depreciation referred to in paragraph 5 (o) is for plant of the John Inglis Company, set at \$280,000. That is distinct and different from capital machinery which we are buying, of \$1,108,000. We are buying it during the currency of two years. Some we buy in the beginning and some in the second part. It all depends upon

the exigencies of the business, which I suggest we do not consider as depreciation in the course of two years when we are only buying it and setting it up. Hence the four years it is actually in use at 10 per cent. That is the real cost for the part of the machinery used in the production of these guns.

By the Chairman:

Q. That would be common practice?—A. That is common practice, except that I have taken a rather high rate.

By Mr. Homuth:

Q. The first figure in column 4 is shown as “costs and assets of Canada, \$13,333 of preliminary expenses”?—A. That is right.

Q. Why do you consider that as an asset?—A. It is an asset. Column 4 is made up of two things—costs and assets.

By Mr. Green:

Q. Which item would you say in as asset?—A. Capital machinery is an asset; tools, dies, jigs, etc., are assets. Coming back to that depreciation and carrying it over, as of that asset \$738,666, 40 per cent is \$295,467 shown in column 6.

Q. That figure of \$295,467 would depend on whether or not we take out the machinery at the end of four years?—A. It would have no dependence on that whatsoever or no relationship to it. All it is is machinery in the plant used in the plant during the four years in the production of guns and therefore suffers depreciation, and that depreciation is a cost in the production of those guns.

Now, if you add up column 6 in respect of everything except the spare and component parts you get \$2,997,483. To that is added the cost of the spare and component parts, which gives us a total of \$4,304,483.

The next item is a matter of opinion, whether you would like to have it in or out; but it is the residual value of the asset in item 4 called “Capital machinery \$738,666.” The 40 per cent certainly is an expense, but inasmuch as the government had an actual outlay in relation to this contract of another \$443,200, I thought someone would like to say, “That is a cost too”; and I am quite willing to look at it as a cost even though it is an asset remaining at the end. Therefore, if you add that in as a cost you get \$4,747,683.

Now you come to column 7, the percentage which \$67,000 is of the cost. Two hundred and sixty-seven thousand is 9 per cent of \$2,997,483, and that is for guns only. There are no parts in that. Then \$267,000 is 6·2 per cent of \$4,304,483. And that is for guns and spare and component parts, and leaves us with an asset of \$443,200. But if you think the asset has been expended in making the guns, then add it in as a cost and you will get \$4,447,000 and \$267,000 is 5·7 per cent of that.

By Mr. Needham:

Q. If you were taking an inventory of what you had left you would count that \$443,000 and, therefore, it could not be a cost?—A. I am quite willing to take either view. All I am doing is presenting both sides. There are some who would say, “The machinery is no good and the money is paid out.” It speaks for itself. I join your view, but, whether it is correct or not, I do not know.

By Mr. MacNeil:

Q. The cost per gun may be estimated as approximately \$680?—A. Well, divide 7,000 into \$4,747,683.

Mr. Chairman, I had had this statement extended but it was not ready, the mimeographer did not have it finished when I came here, so if I may I should like to substitute what I think is the better statement for the one you now have.

[Mr. C. Fraser Elliott, K.C.]

By Hon. Mr. Stirling:

Q. Capital machinery is what Canada is buying?—A. That is right.

Q. Does the Valcartier machinery appear in here anywhere?—A. No; that is an asset that Canada has and it is being put to use.

Q. It is a cost to this gun, is it not?—A. I would say "Yes" to that.

Q. Ought it not to appear somewhere in this?—A. That is a debatable point, I would say it has two sides, and it depends on your view. Let us analyse it. The Valcartier machinery is brought to the John Inglis plant. It has a certain value to-day which I remember hearing in the evidence before this committee a few days ago was said to be \$208,000. But it was also said in the next sentence that that was an abnormally high value for it and that it could not be sold or realized upon for anything like that figure. Therefore, you can either accept the big figure of \$208,000 or you can accept the lesser value, say, half of it. I think you could realize \$100,000 on it. Let me work on \$100,000. Here is \$100,000 worth of machinery moved into the John Inglis Company plant, it is stored there for two years, the preparatory period, that being only a different place to where it was stored previously. There is no depreciation that we must consider in that. Therefore we come to the last four years, and that is an actual asset used in the production of these guns for four years. At 10 per cent, the same rate as used in respect to the capital machinery purchased, 40 per cent would be \$40,000 over the four years. Therefore, there would be an added cost to add to \$4,747,683, as shown at the bottom of column 6. And \$40,000 would represent the amount of the contribution of Canada through delivering the use of the Canadian heavy machinery.

Q. Then the Inglis company is doing work on this Valcartier machinery to adjust it for present use?—A. That is taken into account as an expense because we have to pay the salaries of those mechanics. That is part of the contract. But you were right in saying that in this is not depreciation; at least, I believe not. I had better qualify that by saying, "I believe not." I never heard it discussed, and that is why I think not.

By Mr. Homuth:

Q. Mr. Elliott, in reference to the cost of capital machinery, that is all entirely new and does not include the Ross rifle machinery?—A. Oh, no. That is what we are discussing.

Q. It does not include any of that?—A. The honourable gentleman's point was that machinery supplied by the government, not in these purchases, so far as it suffers depreciation in the making of guns, should it not be a cost? I agree. And I have worked it out at a high percentage, and it works out at \$40,000 for the whole four years.

By Mr. McGeer:

Q. It is included in your statement, and you have considered it as a cost, and your figures are based on that?—A. No; that is incorrect. I think the point is well taken that there should be \$40,000 approximately.

By Mr. Homuth:

Q. That figure of \$1,108,000, of course, is just an estimate, I take it?—A. Well, I would not like to put it in with quite the inference upon the words "just an estimate." I would rather say it is a carefully worked out estimate, not only by our technical officers in conjunction with the contractor, but also with the Enfield experts.

Q. There is nothing in the contract or in any arrangement that limits it to that; if other machinery was necessary for the production of guns, naturally that cost would go up?—A. It would, certainly; it must; but if the limit that

is in there for this estimate is wrong the contractor is a little out of luck, because if there is more machinery he has to do that extra work without any more profit.

By Mr. Green:

Q. It is less profit, but it does not cost him any money; we pay the money?—A. Certainly, if we need more machinery to make guns we would have to incur it in this contract or with any other company.

Q. Preparatory overhead is another figure purely an estimate?—A. Well, I repeat the word “purely” is an innuendo which my discussions with the technical officers indicate to me should not be there. They were very careful in their estimates. We questioned that closely. It was our duty to do so and we did so. I have confidence in these estimates. You might ask the men who made the estimates when you get them here. Bring them before the committee and ask them how they actually made it, as we did.

Q. Of course, all these figures except the \$20,000 are only estimates?—A. All contracts are estimated before hand. You cannot do business any other way. The answer is “yes”; I beg your pardon.

Q. What about the tripod?

Mr. McGEER: Could we not come to the tripod after we have completed the financial statement? What we are doing here is this: we have started with one financial statement. We got almost to the end of it but we did not complete it.

The WITNESS: No; I should like to complete it.

Mr. McGEER: I should like you to be careful and tie in the two statements on the record.

The WITNESS: I will do that. The statement I just delivered to you is very substantially the statement that I first delivered to you except that it is a little more expanded and it is made a little more clear, by putting in a few headings. Apart from that it is very substantially the same statement. The column numbers are the same; the figures are the same, and the only real additions are the two notes at the bottom.

Mr. GREEN: A couple of propaganda notes at the bottom.

The WITNESS: I should not like to join with you in that. I have no desire either to defend or condemn this contract, but rather just to give the evidence that I think is pertinent.

By Mr. MacNeil:

Q. You added a column “income tax”; would you mind explaining that?—A. On the extreme lower right of this sheet is “income tax,” that is 15 per cent income tax on \$450,000. That is the profit on the two contracts made by the Canadian firm. Fifteen per cent is \$67,500, and if you take that from the \$267,000 which is the Canadian profit paid, we get back into our coffers that \$67,500 income tax; so the net left to the contractor is \$199,500, and the percentage \$199,500 is of cost 6·6 per cent for guns only and 4·6 per cent for guns and spare parts, and depending on how you like to look upon that \$443,000 as an asset of expense it is 4·2 per cent of the total outlay. I would call it that.

By Mr. Green:

Q. Mr. Elliott, your figure of \$450,000 includes the British guns?—A. Certainly, because that is a Canadian company making a profit in Canada for an outside organization, and all profits made in Canada by any company, no matter for whom they are working, are subject to income tax.

[Mr. C. Fraser Elliott, K.C.]

By Mr. Homuth:

Q. Mr. Elliott, why should not the \$67,500 of income tax be deducted from the whole \$450,000?—A. Because England gets no part of the \$67,500; we get it all.

Q. That is quite true but nevertheless your percentage would not be the same. They are making a profit on the English contract as well.—A. You mean the company is making a profit?

Q. Decidedly.—A. Yes, and on that profit Canada takes the income tax; therefore returning to us \$67,500.

By Mr. Green:

Q. The figures in the left column are based entirely on seven-twelfths of the amount in respect of \$450,000. You should take 15 per cent on \$267,000.—A. We do take 15 per cent on the \$267,000, but we also have the right to take 15 per cent on \$183,000 because it is a Canadian company.

Q. This column has to do with Canadian guns, and it is not fair to take 15 per cent on \$450,000. Surely it should be on \$267,000 for the purpose of that column?—A. It is not a case of being fair; it is a case of what are the facts, and the facts are we do take out of \$450,000, \$67,500 and put it back into Canadian coffers. That is a fact. If he makes a profit, of course; if he does not make a profit, we do not get the tax.

Q. You are using this column to show the percentage of cost by way of profits on the Canadian guns?—A. That is correct.

Q. Surely you cannot mix figures that way, take one figure and include the British guns and another figure— —A. Whatever interpretation you put upon it, let me answer it in this way: Canada to get her 7,000 guns is paying out \$267,000 profit to the John Inglis Company in respect of the John Inglis Company's activities in Canada, and Canada is getting from that company \$67,500; therefore the net outlay to Canada is \$199,500; and I say, what is the net outlay of Canada in respect of the actual cost, and that is what that column states.

By Mr. MacNeil:

Q. The actual profits?—A. Actual profits, thank you.

By Mr. Purdy:

Q. What would happen if they made a loss?—A. We would not get any income tax. Secondly, if they made a profit on any other contract, that profit could be reduced the same.

By Mr. Needham:

Q. Is this \$67,500 taken to reduce the actual cost of the Bren guns?—A. Well, the answer all depends how you approach that question. You have to do it from two angles. It does not really reduce the cost of the guns as an actual cost to make the things. It has no effect on that; but when you look at the outlay Canada makes and the intake she gets from the company, the result is a certain percentage of the cost of making these guns, and that is what the last column does.

By Mr. McGeer:

Q. There are two phases to this statement as I understand it. There is the cost of the guns, and there is the profit to the contractor?—A. Certainly, and the same in every profit.

Q. This profit, on the basis that you have given us here reduces down to 4.2 per cent profit to the contractor?—A. Taking the financial set-up as a whole.

Q. And that is a gross profit to some extent?—A. No, that is the net profit.

Mr. HOMUTH: Absolutely not.

By Mr. McGeer:

Q. Just a minute; we will see about that. That does not provide for rejections, does it?—A. The basis of our discussion is that the profit of \$450,000 is made. That always stands in jeopardy if there are any rejections as a loss to the contractor—

Mr. HOMUTH: I doubt very much that Mr. Elliott is in a position to discuss rejections with regard to this contract. You have to have men who are technical experts to discuss rejections. We have heard a lot about rejections with regard to this contract. Anyone who knows anything about manufacturing precision tools and machinery knows that rejections are a very, very small item in the whole picture; and I do not think that Mr. Elliott is in a position to answer questions regarding rejections. I think that matter ought to be left over until an expert is here who knows something about the manufacturing.

The CHAIRMAN: May I say in reply to the remarks of the hon. member that I do not believe Mr. Elliott would assume to discuss the percentage of rejections; but there is a clause in the contract which refers to rejections not on a percentage basis. I believe that is the only point Mr. Elliott would attempt to cover in the matter. I believe you are perfectly correct.

Mr. BOTHWELL: All he has said is if there are any rejections it will reduce that profit.

Mr. GOLDING: I would say that anybody who knows anything about contracts knows that that would be an important factor.

By Mr. MacNeil:

Q. There is a clause in the contract which says rejections are not charged to the company unless they are due to faulty workmanship or negligence; but there are rejections that might normally occur in the manufacture of a gun which might be paid by the government. Is that not true?—A. That is correct.

By Mr. McGeer:

Q. I should like to read section 11 into the record if I may? Section 11 is as follows:—

The party of the second part agrees that all work done under this contract shall be in accordance with the specifications supplied by the party of the first part and that all material and workmanship shall be subject to inspection and tests by dully authorized representatives of the party of the first part at all times and places, and when practicable during manufacture, and that should any of the articles or materials comprised or to be used in said Bren guns and in spare or component parts thereof be found by the party of the first part to be defective, either in quality or workmanship, or otherwise not in conformity with the aforesaid specifications, the party of the first part shall have the right to reject such material and/or articles, as the case may be, or require their correction, provided always that the costs of any material or spare or component parts so rejected, including costs of labour thereon shall not be charged to the party of the first part if the defects in same which cause such rejection are the result of faulty workmanship or negligence on the part of the party of the second part and are not such as normally occur in the manufacture of Bren guns or spare or component parts thereof according to accepted engineering standards.

[Mr. C. Fraser Elliott, K.C.]

Now that does mean that all rejections due to faulty materials or faulty workmanship are a direct cost to the contractor for which he is not reimbursed and upon which he gets no profit. The question that I put to you before is this: in the light of that section in the contract, this 4·2 per cent profit is not a net profit, but in some respects a gross profit?—A. I could not agree with that statement. The 4·2 per cent referred to in this statement is founded on a presumption that the contractor would make his profit of \$267,000 on the Canadian contract and \$183,000 on the English contract.

Q. I quite agree.—A. But—

Q. That is the maximum he can make?—A. Quite so. Now, therefore, to meet your question as it is put, I agree, if the contractor in carrying out this contract makes expenses for which he is not paid by the government that is a loss to him, and would go to reduce the profit that we have assumed.

Q. Am I not right in my assumption that in some respects that is a gross profit?—A. No, I really could not join with that in any respect, because it is founded on the preliminary—the whole statement is founded on the preliminary presumption that he is going to make his profit. If he does not, that is another question that we are not discussing at the moment except that you bring it up that he might make this loss due to rejections, and I say, quite so; but that is over and above and outside the statement we are discussing. It is a reality to the contractor, of course, a very real one in my judgment, but it is not brought into consideration here.

Q. May I put it to you this way: having an overriding maximum profit which shows, as closely as you can estimate, a cost of 4·2 per cent, that overriding total profit is subject to possible losses on rejections?—A. Certainly.

Q. Then the contractor must suffer these losses?—A. Certainly.

Q. So that his total profit of 4·2 per cent is subject, at least, to possible losses and therefore reduction if he does suffer rejections for which he is not going to be compensated?—A. I quite agree with that, yes.

By Mr. MacInnis:

Q. Would it be fair to say that provision has been made and the estimate has been drawn up in such a way as to allow for certain rejections?—A. Oh, no, you would not do that.

By Mr. MacNeil:

Q. Those that normally occur?—A. Within a normally regulated business.

By Mr. MacInnis:

Q. Did not the engineers when making their estimates make them high enough to cover all contingencies of that kind? All these things are in the backs of their minds when they are making up their estimates?—A. I would not think you would draw up a contract to provide for bad workmanship. You draw a contract in the expectancy that it will be done under the normal skill that that business should provide.

Q. But normally you would allow for a certain amount of poor workmanship?—A. The normal was not taken into consideration here. We are speaking here of rejections beyond the normal as referred to in section 11.

By Mr. McGeer:

Q. The normal rejections are taken care of in the contract and not rejections due to faulty material or workmanship, such as the department would decide are not within the realm of normality in accordance with accepted standard engineering practice. That is what is taken into consideration there. I do not believe that has much to do with the analysis of the profits to a contractor when you arbitrarily fix the overriding profit.

Mr. MACINNIS: I did not raise the point. As a matter of fact I do not see why the abnormal rejections should be brought in at all, because they are something that we cannot know. It will depend, to a large extent, upon the skill of the persons engaged in the manufacture, and we presume that the contractor for his own benefit, will engage the most skilled help, labour and engineering and others that he can get.

Mr. GOLDING: Mr. Chairman, I would say that if any member of this committee thinks that in that contract there will be no rejections on account of bad workmanship he will be a very optimistic person. That is what I say with my experience in that type of work.

Mr. BROOKS: Does anyone say the government should pay for that?

Mr. GOLDING: No. That is provided for. It will be a loss to the manufacturer.

By Mr. Homuth:

Q. It is based entirely on the efficiency of his work; but, Mr. Elliott, in another clause of the contract it is provided that if through outstanding efficiency within the plant they can turn these guns out more cheaply than is estimated, they get a greater percentage on that output. Is that not a fact?—A. Now, if you do not mind, to answer that specifically “yes” or “no” would be unfair to all persons connected with the contract. I would rather explain that for you.

Q. May I just interject that why I suggest that is this: if due to the efficiency of their plant they are able to come under that clause that you are explaining, they would still have their profit of \$450,000 and it might possibly take care of any rejections there might be.—A. I am informed in the way the contract now stands, and supplementary contracts, it is not possible. Two hundred and sixty-seven thousand is the maximum profit that can be made even though they are the most efficient people in the world.

Q. Oh, yes. I do not say they can get more.—A. To answer that more specifically, the incentive clause is the clause you refer to. That does not make possible more profit than \$267,000.

Q. No, but what I am getting at is this: the incentive clause would give them in the final reckoning more money, so that if there were rejections they would be offset by the extra in the incentive clause?—A. That would equally be true if the costs were so low that you were working on a possible profit below \$267,000.

By Mr. Green:

Q. May I trace that, Mr. Elliott? The total estimated cost of producing the 12,000 guns is shown by the statement. Am I correct, Mr. Elliott, in saying that the figure would be made up as follows: first of all, the estimated cost, including spare and component parts, \$6,966,210?—A. That is correct.

Q. Then we have to add to that the Ross rifle machinery which at the last meeting was set at a cost of \$209,872.32, making a total of \$7,176,082.32, and then the profits of \$450,000 on top of that. Is that correct?—A. That is correct, if your presumptions are right, and I think they are as I state.

Q. What about the costs of the tripod?—A. That is outside the contract.

Q. Is the Inglis company not making tripods?—A. I cannot give any evidence on that, I do not know.

Q. Did you not have evidence before the interdepartmental committee as to the approximate cost of tripods, because the gun has to be equipped with tripods?

Mr. McGEER: Only some.

[Mr. C. Fraser Elliott, K.C.]

The WITNESS: The question that was before the interdepartmental committee was the gun and the spare and component parts, and the spare and component parts were not definitely known at that time, as I told you, and we guarded against the ultimate cost by saying, if you do not know what you are talking about in that connection then we won't give you a profit in respect of those figures; therefore to answer your question, at that time neither the guns, the extra barrel, the spare parts, nor the tripods, nor any other parts actually belonging to the gun or in connection with it were really under descriptive discussion.

Q. Since then you have an estimate on the spare and component parts?—A. That is right.

Q. But you have not got any estimate yet on tripods?—A. Tripods, I am told—you can speak to the experts—are not in this at all, not in the contract at all, and that was always our consideration, because we did discuss the possibility of what would be included in the spare and component parts, and our discussions never went farther than the following, an extra barrel, 24 clips were used but they talk about 25 now, I believe, and something to do with springs connected with firing points, and firing points.

By Mr. MacNeil:

Q. And the bipod?—A. You are now introducing to me a new one. I had not heard of bipods before. I have no doubt it exists, I do not know.

By Mr. Green:

Q. You have no idea of the cost of a tripod?—A. No, no idea at all.

Q. Then, there is the royalty of \$15 on a gun which would make another \$180,000 added to the cost?—A. No; we are talking of costs for making the guns in Canada as between the contractor and the government.

Q. I want to get the total estimated cost to Canada of the guns?—A. Well, I would not like to give evidence outside the contract. You may put it in if you wish, but do not ask me to join with you.

Q. The total cost as between the government and the contractor estimated is \$7,636,082.32?

Mr. McGEER: That is not a correct statement of the costs you are giving.

Mr. GREEN: Let Mr. Elliott answer.

Mr. McGEER: You are putting a direct statement on the record as a fact which Mr. Elliott has told you he cannot answer.

Mr. HOMUTH: He did not.

The CHAIRMAN: Wait a minute. Let us get this in line again.

Mr. GREEN: I am questioning Mr. Elliott, not Mr. McGeer.

The CHAIRMAN: What is your question?

By Mr. Green:

Q. The total costs. We agree as far as the \$7,176,000 is concerned.—A. What are you reading, \$209,000, and you are adding that to the figure of \$6,966,000?

Q. \$209,872.32.—A. Let us stay in the dollar column. That makes \$7,126,000?

Q. \$7,176,000.—A. \$7,176,082.

Q. Add to that a profit of \$450,000.—A. Before we go on to that profit let us pause a moment. That \$209,000 which you are saying is a cost in this contract—we are speaking qua contract, and the cost that we consider as between the contractor and the government does not include the \$209,000; therefore we are moving outside the realm of the contract to go to a broad government con-

sideration, and you suggest that in this present contract in these years concerned we have to add a cost of \$209,000 outlay in connection with this contract. I suggest that we have the machinery and that the best we can do is to put a value upon that machinery which is going to be used in this contract to help produce guns, and the cost would be the depreciation suffered by the machinery in doing the job, but not the \$209,000.

Q. The other day Colonel Orde told us that the machinery which had been turned over to the Inglis company from the government arsenal was valued at \$209,872.—A. I will accept that.

Q. I may be wrong in including that in my figures but I think it is part of the cost to Canada.

Mr. McGEER: No.

The WITNESS: May I show you where you are wrong?

Mr. GREEN: Let the witness answer.

Mr. McGEER: You are stating facts which are not proved.

The WITNESS: Let me show you, Mr. Green, where you are wrong. This machinery is worth, let us agree for argument's sake, \$209,000. It is put into the John Inglis Company's plant for use in making guns. At the end of that gun-making period we still have that machinery, so we must say to ourselves, what is the cost of making the guns in relation to the machinery we are discussing? Obviously the amount that we have suffered by way of depreciation. There is still a residual asset left at the end of the contract; therefore the cost as a cost in this gun-making business is the depreciation for four years on \$209,000, and if you take a rate of 10 per cent for four years it would be \$80,000, not \$209,000.

Q. That depends on how long the guns are made. The gun licence is for a period of ten years, at least renewal for a ten-year period.—A. You must have reference to another point in the contract. We want to get at the costs that we are now talking about. I suggest at the end of the four years there is a breach of the contract.

By Mr. MacNeil:

Q. Why don't you put the investment in machinery on a parity with the machinery now being purchased?—A. Because that is the actual outlay, the cash outlay of the government by reason of making the contract.

By Mr. Green:

Q. Whether it is machinery that is bought or machinery that is put in ourselves, it amounts to the same thing?—A. The amount paid out on the gun, are the amounts that I want you to put in on the costs.

By Mr. MacNeil:

Q. If the government was not in possession of the machinery it would have to undertake a further outlay of possibly \$209,000?—A. On these sub-junctives, I would say that is correct.

By Mr. Green:

Q. I want to get the total figure from Mr. Elliott.—A. I do not join with you on the \$209,000. I give you readily 10 per cent for four years on that as a cost—\$80,000—not more. That is high.

Q. Then you have to add a further figure of \$450,000 for costs, and, as I estimate it, that would mean a total cost of \$7,626,082, including, of course, the Ross rifle equipment at \$209,999 odd?—A. If you are going to do it that way, I understand that.

[Mr. C. Fraser Elliott, K.C.]

Q. That figure would be correct on that basis?—A. If the \$450,000 is the correct figure.

Q. Over and above that there is, as a matter of fact, a royalty of \$15 per gun which adds another \$180,000?—A. Outside of the contract. That is what I understand.

By Mr. MacNeil:

Q. And a licence fee?—A. And the licence fee. That, again, is outside the contract; but listening to the evidence the other day I would say that sounds correct. Let me indicate to you, Mr. Green, the result of this building up of costs. It actually means that 4·2 per cent goes down even lower because the higher the cost the lower comes the percentage of profit payable. If you like to bring it up to \$10,000,000, then you will find that \$267,000 is 2·67 per cent of the cost.

Mr. GREEN: I am not dwelling on that.

The WITNESS: I just want to indicate where you are going in my mind.

Mr. GREEN: I have no doubt they will have sufficient profit, but I am trying to arrive at what the whole business is going to cost the government.

By Mr. Homuth:

Q. In the calculations that Mr. Green has made there is no provision for interest on the money that the government is expending for machinery for this plant, is there?—A. No, and I do not think there should be. When you buy a working asset you do not say, "I want to charge as a cost not only the cost of the asset but the money that I have not now got at an interest rate that is also added to the machinery costs." I would not do that. You might, but I would not. I would call it bad accounting. If you tried to reduce your profits in that way for income tax purposes, the rules would not allow you to do it.

By Mr. Needham:

Q. I understand that the \$267,000 is the amount of profit that the Inglis company can get?—A. From Canada.

Q. Supposing that something happened whereby there were some changes made that required extras; does that still stand?—A. It still stands at \$267,000. Extras is just another way of saying, "I want to make a new contract," and we have no desire to make any new contract. We have no need to, because we say, "Deliver these guns or you don't get your money." To answer more specifically, if they want extras they will have to make a new contract. But it is not necessary. It is the same as any builder's contract. But this is not a builder's contract; this is for a specific thing tested to work as contracted, and if it does not work we do not take it. There is no need for extras.

By Mr. Homuth:

Q. Getting down to the question of what the Inglis company has invested, under the contract the only thing that the Inglis company has invested in the production of Bren guns is the addition to the plant? Am I correct in that?—A. That is right.

Q. So that the money they are making, whether it is 3 per cent, 4 per cent or 5 per cent, is a profit on an investment in a new building connected with the old John Inglis Company?—A. Oh, no; I would not agree. The profit they are making is that profit to which the contract entitles them for making something for Canada, namely, guns. It is not a profit on their building.

Mr. McGEER: They have to provide all the money, pay the wages and carry the cost of getting these things through.

By Mr. MacNeil:

Q. But you fixed an arbitrary assessment on the original capital outlay of the company?—A. For purposes of depreciation, but that is all.

By Mr. Bothwell:

Q. The percentages you set out are the percentages of costs to Canada over and above the actual cost of the guns?—A. Right. The actual profit over the cost. Your sentence is correct, but you used the word "cost" twice, and I think you should substitute the word "profit" for the first word "cost." When you come to look at the notes you will get more clearly what I mean.

Q. Yes, but for the purpose of getting these guns Canada is paying 4.2 per cent, or whatever it amounts to, over and above the actual cost of the guns?—A. Yes. But let me explain that, if you really want an explanation. Canada, looking at the contract as a whole, receives $\frac{1}{3}$ of the capital machinery as an asset though paid for by Great Britain. That $\frac{1}{3}$ of the machinery is \$369,000, and you will find that in the third column at the lower part of the statement. The United Kingdom pays \$369,333 in cash for machinery that we own. That is an income to Canada. The profit cost on getting our guns is \$267,000. That is an outgo to Canada. In other words, on the contract as a whole we get more assets in than we pay out; therefore, we get our guns at less than the cost to manufacture them.

By Mr. Green:

Q. In connection with that statement, you have here in note 1, "The asset-values, paid for by the United Kingdom, reverting to Canada without cost are, $\frac{1}{3}$ of machinery—\$369,333"—A. Right.

Q. That depreciates at the rate of 10 per cent a year, does it not?—A. That is right, during the four years of use.

Q. Yes. Then I do not think there is any doubt in anybody's mind here that this factory is not going to shut down at the end of four years?—A. I do not know about that.

Q. If they continue to make guns, in ten years' time that value is completely eaten up, is it not?—A. Well, in theory, yes; in fact and in law under this contract, taking into account your 10 per cent a year in column 6 at the lower part of this statement, you find that there is \$295,000 as depreciation. Now, if you apply the same per cent to \$369,000 in column 3, that would be the amount of assets paid for by England that we used free of cost in making guns; but we still have 60 per cent of that \$369,000 as a remaining asset to Canada.

Q. Yes, that is for the first four years only, but if there is production for ten years then that so-called asset we get from Great Britain disappears?—A. It does not disappear; we use that asset which is ours in making yet further guns, and that asset did not cost us anything. We use it after the four years up to ten years, but we are using our own, so it is not gone. It was utilized in making more guns, and we have the asset in our own hands of guns.

Q. Yes, but the asset value, as you call it, has disappeared in ten years' time?—A. No; decidedly not. You will find it in the guns.

Q. It has left the plant and gone to the guns?—A. Yes.

Q. You claim in your note that an asset value also reverting to Canada is one-third of the tools, dies, etc., making a figure of \$140,249. That depreciates at the same rate, does it not?—A. I am willing to say one-third residual value, or more or less as you like. That is a mental measure in the light of experience as to how much of the machinery is left at the end of the contract.

Q. Yes, but these are tools and dies?—A. I am calling it machinery. That is a mistake. Tools and dies.

Q. You would not dispute the fact that at the end of the production of guns these tools and dies will not be worth very much?—A. I should think they

[Mr. C. Fraser Elliott, K.C.]

would be worth one-third, for this reason; that when you make the twelve thousandth gun there would be the tools, dies and jigs remaining. They would not come to a sudden fatigue on the last gun; they would be capable of making yet more guns. And I say, measuring the value in those tools, if one-third is high, cut it down; but I should think that these tools, dies and jigs would still be useful to the extent of 33 per cent.

Q. Yes, but actually under the contract the contractor gets as overhead the cost of replacing tools, dies and jigs?—A. Certainly.

Q. The asset you claim here of \$140,249 only represents the cost of the first tools, dies and jigs?

Mr. McGEER: Oh, no, no. This is the estimated cost.

The WITNESS: I think the answer is "yes" to that, but you must carry on because on the added costs of buying tools, dies and jigs that come in during the production period, England pays more than one-third. We get five-twelfths, so we do better. She gives more than half that asset to us; so that only works against your view as I see it developing.

By Mr. Green:

Q. So that if this 10 per cent depreciation is fair, at the end of ten years the whole asset value of machinery and tools combined, amounting to \$509,582, is wiped out?—A. Ten per cent for ten years' actual continuous use of machinery; in theory it is gone. That is all I can say.

Q. Then we come to note 2. That \$509,582 is included in the so-called saving to Canada of \$1,309,582?—A. Would you mind if I read note 2?

Had Canada proceeded alone to produce 7,000 guns then the United Kingdom contribution of \$509,582 and the estimated reduction of \$800,000 in production costs of Canada's guns would have been lost. An estimated saving of \$1,309,582 is achieved by reason of placing the two orders with the same contractor.

By Mr. MacNeil:

Q. Would not the same saving have been effected if the production had been carried out in a state-owned and operated plant?—A. I expected that question and that is the reason I put in the next note. It is a very important question. Remember, we are sitting as an interdepartmental committee knowing of these advantages, and we do not want to lose this advantage of getting guns at less than cost. And getting competitive bids without the English contract would mean that competitors among themselves would certainly take the course of sticking on their profits, and we would lose the advantage. The consideration was England, not giving competitive bids consideration. Read the cable at the bottom:—

The United Kingdom cable read—"As regards alternative tender" (because we sent over and asked them would they consider competitive bids among a selected list including the John Inglis Company and they said)—"as regards alternative tender. . . . This delay would be fatal to the British interest in the scheme."

Q. Was it not disclosed to the interdepartmental committee that that cable arrived in Canada after a prolonged period of negotiation and after an assertion by the chairman of the interdepartmental committee that this firm had been picked?—A. I would not say that it was disclosed. Let me develop for you exactly how it happened.

Q. But on my original question, Mr. Elliott, if it had been a matter of policy—perhaps you do not desire to discuss policy—but if it had been decided to produce the guns in a state-owned and operated plant, would it not have been possible to effect the same saving of \$1,309,000?—A. You could not get the British contract. That is the point.

Q. In a state-owned plant?—A. The delay was the essence of their cable. If you go into other forms of contract, if you read the cable, it means that somebody has to go over and take the time to get acquainted with their plans and specifications, and so forth. England was in a hurry. She said, "Delay is fatal."

By Mr. Brooks:

Q. Who was responsible for the delay?—A. There was no delay.

Q. I thought you said there was a delay?—A. England was fearful of a delay and said, "If there is delay we are not interested in the scheme; it is fatal to our interests."

By Mr. MacNeil:

Q. But these negotiations commenced in 1936?—A. Quite so, and the interdepartmental committee said that they would like to have had competitive bids, always including the British contract. But if our insistence upon competitive bids was going to lose the benefit of \$1,309,000, and if we had still insisted and said "Yes, we are willing to lose that on the theory that we should have competitive bids," then the contracts would have been let on competitive bids. And after the guns were delivered we envisaged that the price would have been much higher, and it would have been a fine interdepartmental committee to have been told, "You worked on the theory of competitive bids and you lost an asset value that was right before you, yet you were told by Great Britain that any delay would be fatal. In spite of the word 'fatal' you still insisted upon competitive bids and you stupidly lost \$1,309,000."

By Mr. Green:

Q. What date was this cable?—A. I am just going to read the whole thing.

By Mr. MacNeil:

Q. It is due to the fact that the interdepartmental committee did not have the opportunity of considering the draft contracts until January and February of 1938, is it not?—A. I cannot answer that. I am just saying that here was the interdepartmental committee with a cable as dramatic as it sounds with the word "fatal" in it. I must say it is dramatic. We were told, and you believe in an Englishman in a high place when he says, "If you do these things our interest is not there; it is fatal to our interest. Go ahead and do it if you like." I ask you, sit in that committee and contemplate—

By Mr. Brooks:

Q. Was that not after two years had been spent in building up Hahn as the contractor for the Canadian government, Mr. Elliott?—A. It was at the point of time that the cable mentions the considerations. I only speak from the time we met the contract, when we sent our cable, and this was the reply.

By Mr. Homuth:

Q. Would there have been any difference in the value of the assets if we had gone ahead and purchased the machinery and manufactured these guns in a government plant?—A. You would have lost the great benefits of the British contract. You must not do that.

Q. Aid the contract we are entirely equipping a new plant?—A. With the aid of British money and the British production which lowers costs.

Q. There was nothing to say that we could not have equipped a plant of our own which could have been done in just as short a time?

Mr. BROOKS: It looks as though England had Hobson's choice in the matter.

[Mr. C. Fraser Elliott, K.C.]

The WITNESS: That is preliminary material.

Mr. McGEER: Mr. Chairman, we started out to discuss the financial phases of this contract. Before completing them we are going into a question of hypothetical policy as to what might have been done had the policy of the government been to establish its own plant. I think it can be clearly shown that there was no intention of establishing its own plant at that time.

Mr. MACNEIL: I agree that we should.

Mr. McGEER: I do not see how this witness, brought here to analyze this contract, can answer questions upon an hypothesis of policies which were non-existent. What I suggest is this, and I think it is important; that we complete the discussion on the financial statement and then deal with the question of those negotiations. I think to have those negotiations properly before us we should have all the facts from the time Hahn started negotiating with the Department of National Defence and the war office in London. My reason for suggesting that is this: It is indicated in the report of the commission that there were certain cables and negotiations passing between the Department of National Defence and London. In that report those cables are referred to by number. I think to understand those negotiations, if we take the matter from the beginning of all the reports that were made to the interdepartmental committee and which I think fairly well disclose the details of the negotiations between not only Hahn and the Department of National Defence but Hahn and the war office and the Department of National Defence and the war office, we will be able to come to a conclusion as to whether those negotiations were wise or otherwise. After all, what I think the public are interested in, and what we are here to do is to serve the public, is to ascertain first, did we get Bren guns in Canada under conditions that were reasonably fair or otherwise? Did we get them under conditions where the profits to the contractor were kept within the bounds of reason? I certainly should like to see this financial statement completed.

Mr. MACNEIL: We were asking questions with reference to a note placed on the financial statement. I would still ask him the further question as to whether it would be impossible for a state-owned and operated plant to secure a British order, not at any particular date, but at any time? It seems reasonable that if they would invest as large a sum in a private concern, they would with equal alacrity invest a similar sum in a state-owned and operated plant.

The CHAIRMAN: I think Mr. Elliott is very clear on what he wishes to submit in a consecutive way to the committee. The criticism from one member of the committee to another, I think, has arisen out of the statements of members themselves. In connection with this last note, Mr. Elliott, I think, is ready to answer Mr. MacNeil's question. If you will permit Mr. Elliott to proceed I think it will probably keep us on an even keel.

By Mr. Green:

Q. Mr. Elliott said that Canada was getting the guns at less than cost. Did you reach that conclusion, Mr. Elliott, on the basis of this machinery having a total value to Canada of \$509,582?—A. Plus the saving.

Q. Pardon?—A. I reached that conclusion either on the machinery alone, that is, the \$369,000 machinery value that is given to Canada; or I take it alone on the saving of \$800,000 that will be effected by making 12,000 guns instead of 7,000. Or I will take it on the combination of the two, whichever you like. Take the three, the asset value coming into Canada versus the cost-profit going out. Canada gets more in than she pays out. She has her guns; therefore, she gets her guns at less than cost.

Q. In your figure of \$509,000 you are allowing nothing whatever for depreciation?—A. No, because England pays for the machinery and we use that in making the guns. The depreciation is used up and transfers itself into guns. England paid for it before it ever suffered depreciation.

By Mr. Brooks:

Q. Did we not make British guns with it too?—A. Certainly.

By Mr. Green:

Q. And we would not need as many machines if we did not make as many guns?—A. You need the same number of machines to make the same guns, whether you make one or 12,000 guns.

By Mr. MacNeil:

Q. May I have an answer to my question?—A. Mr. MacNeil has asked a question, as I understand it; could we not have made these guns in a government-owned plant and have effected the same saving with the British government by getting their contract. My answer is that I do not know, but I have a conclusion in my mind that might be right or wrong. You will not want to hear my conclusion so I will give you the evidence on which I base that conclusion and you may draw your own. The evidence is as follows: On the 1st of February, 1938, after the interdepartmental committee had considered this contract for some little time, from the 5th of January in point of fact, the committee decided to send a cable to England through the deputy minister asking for two things. First, the production costs in England of the Bren gun; and asking for England's views on the possibility of competitive bids. That cable on the 1st of February read in part as follows:

Advisability of obtaining tenders on a cost plus basis from a limited number of selected companies including the John Inglis Company. It is private and not public tender that is intended. Particularly the committee would like to know if this would affect the placing of your order in Canada realizing the probable delay incurred thereby. This information for the confidential use of the interdepartmental committee which is working on the proposed contract.

On the 4th February, Sir Harold Brown, the responsible officer in England dealing with this matter, cabled Colonel La Fleche as follows:—

Your telegram of the 1st of February data required is being collected and will be forwarded stop must emphasize that any further delay may adversely affect proposal.

On the next day, February 5—

By Mr. Green:

Q. 1938?—A. All in 1938. Our representative in London, Colonel Logie, wired Ottawa as follows:—

I am of firm opinion that immediate action is essential and that any delay will jeopardize the whole transaction.

Note this, "any delay." Three days afterwards, on February 8, 1938, the technical information as to the average cost per gun was cabled followed in the same cable by the following statement:—

As regards alternative tenders several months would necessarily be required for another firm to study the job before making reasonable tender. This delay would be fatal to the British interest in the scheme.

The next day, February 9, 1938, Sir Harold Brown cabled Colonel La Fleche:—

Draft of the Bren contract with the John Inglis Company now agreed in detail by the War Office and I do not anticipate difficulty when it is submitted by the War Office to higher authority which will be done forthwith.

[Mr. C. Fraser Elliott, K.C.]

Higher authority being equivalent to our treasury board or our council. Therefore, observing that the point of entering into the contract had arrived, realizing the conditions prevailing at the time, the Inglis plant could make these guns but was not ready to make them, but was expanding, the committee had to determine whether the statements in this series of telegrams indicated that "we want to act right now and get on with these guns." The interdepartmental committee had to decide whether notwithstanding that, we could go out and get competitive bids, or wire them and say we are going to make these guns in our own factory.

By Mr. MacNeil:

Q. They waited until 1938 and then put a gun to your head; is not that a fact?—A. I could not say that.

By Mr. MacInnis:

Q. The interdepartmental committee, even when it was called in to deal with this contract was put in a position where it could not do anything in respect of accepting the contract without taking upon itself the delaying of something that was considered, or might be considered extremely important in the matter of rearmament. Was not that the position?—A. We were put in this position: the cable from England said we will pay one-third of your costs on machinery and go in with you in making 12,000 guns instead of 7,000 guns if you will do it now; if you do not do it now, we won't go in with you.

Q. According to your own evidence, and it will come up later, that is the reason why I agree with Mr. McGeer that it should not be discussed at this point, the inference was that because of the statement made by the chairman of the committee you could not refuse to accept this contract without taking upon yourselves the responsibility of delaying the making of the Bren guns?—A. I am very glad you brought that up, because I had innocently forgotten all about it, and it certainly should be linked up. Now, the interdepartmental committee for a number of days certainly wanted to have competitive bids. We believed in the policy and we pressed the department to let us have competitive bids. They, for reasons which they themselves can give in their own evidence, said: no, we cannot do that; it is the English practice and so forth. I won't develop their argument, but they said no, we won't have competitive bids. We said, "Well, let us find out from England herself; never mind the Department of National Defence; let us find out from England herself whether she will have competitive bids." And we sent the cables I have read and England said, "We will not have competitive bids." In substance, that is what she said.

Now, the interdepartmental committee said, "Competitive bids are certainly good if they can be secured with this contract." The interdepartmental committee is functioning under an order-in-council which states—I am quoting at large—"Only those contracts that are not competitive will be referred to it for consideration." This contract was not going to be competitive, and Colonel La Fleche said, and you will find this in the minutes of the evidence, that he realized the department was always initially responsible for referring non-competitive bids to the interdepartmental committee. It was not a responsibility taken at the time of these cables; it was a responsibility taken initially at the 31st of December when they sent a non-competitive bid to the interdepartmental committee. That responsibility which he took later on was only a confirmation of a responsibility that the order-in-council required him to take, and the interdepartmental committee insisted that he take that responsibility, and he said he would. Now, we had linked up with him his own responsibility, and we had before us, therefore, a clear road and a non-competitive bid which we could not refuse, in view of England's activity, without risking our reputation as common-sense men in throwing over a real asset.

By Mr. MacInnis:

Q. That bears out my question that, when the interdepartmental committee was sitting, the deputy minister of national defence who was chairman knew all about this contract months before, but when the rest of the departmental committee were asked to deal with the contract you were in such a position that you could not ask for competitive bids without taking responsibility that you did not want to take?—A. That is right.

By Mr. McGeer:

Q. As a matter of fact, Colonel Logie pointed out to you that the British war office in a case of this kind would select the contractor. I mean, that is in Colonel Logie's report too, is it not?—A. Not in the cables I read. That is in some other papers. It is there, yes.

Mr. McGEER: In any event, Mr. Chairman, to keep this record straight, I think we should identify the first statement.

The WITNESS: Let us substitute one for the other.

Mr. McGEER: What I am afraid of is that the record will not be very clear, because we have tied one statement in with the other. I think if we do it this way it will leave no room for doubt. I think we should identify the first statement as a statement of C. Fraser Elliott, Exhibit A. The second statement should be put in as Exhibit B.

I should like to give the committee notice that I have not interfered very much with the discussion to-day, but there are some things I want to ask in connection with this statement for my own information at the next meeting. I should like to have the privilege of doing so at the next meeting.

Mr. GREEN: There was a third statement, Mr. Chairman, that should be put in.

The WITNESS: Had you not better take them in chronological order?

Mr. MACNEIL: The analysis.

Mr. McGEER: I thought that was read in, but, in any event, we could put it in as Exhibit C.

The CHAIRMAN: Before we adjourn, gentlemen, I should like to explain one or two points in connection with the documents that were requested the other day. First, an itemized statement of all vouchers. We have here a list of all the original vouchers. We shall have to itemize this list, and it will take a lot of work. I wonder if we could make this available to the members of the committee in room 504 and return them, or is it the wish of the committee that we undertake to copy them?

Mr. McGEER: Are these some statements that were submitted and returned rejected?

The CHAIRMAN: These are the original lists of all the expenditures made.

Mr. MACINNIS: I wonder if that matter could not be left with yourself and the sub-committee. They could go in either separately or together and have a look at them and make up their minds.

The CHAIRMAN: If you wish to leave it that way, all right. We will retain these vouchers for a period of a week, and we will have them in room 504. The secretary can go over them.

Mr. MACINNIS: I had in mind in consultation with yourself. If the sub-committee decided that they should be kept, we should keep them.

The CHAIRMAN: Could we retain them, say, until next Tuesday, and after you look at them the sub-committee could decide what to do with them?

Mr. MACNEIL: Mr. Chairman, I think the clerk should notify Mr. Homuth and Mr. Douglas, as they were interested in the vouchers. They are not present now.

[Mr. C. Fraser Elliott, K.C.]

The CHAIRMAN: Yes. The next point has to deal with Mr. Green's question in connection with disbursements under the item of \$20,000. The answer is that no payments have been made under section 3, paragraph 3, clause 1 of the agreement.

Mr. GREEN: No; we asked for all the amounts we were liable for.

The CHAIRMAN: The government is responsible for an unknown amount not exceeding \$20,000, subject to the control of the department. There have been no expenditures to date. Does that answer it?

Mr. GREEN: I want to know what the expenditures are for which we are liable?

Mr. McGEER: They are \$20,000, subject to what the department will allow.

The CHAIRMAN: How would it be to leave that and get it from General LaFleche when he comes to give evidence, or do you want to ask for it in writing?

Mr. GREEN: Would not some official of the treasury department know about it?

The CHAIRMAN: This is from the treasury department.

Mr. GREEN: He mentions there that there are several amounts. Apparently there are amounts put under the scheme in excess of \$20,000, but the department will only allow \$20,000.

Mr. McCANN: They have not allowed anything.

The CHAIRMAN: This is what it says:—

The government is responsible for an unknown amount not exceeding \$20,000, subject to the control of the department. There have been no expenditures to date.

Mr. GREEN: What claims have been made to date, and which, if any, have been approved?

Mr. McGEER: And which, if any, have been rejected?

The CHAIRMAN: I have a list of the salaries that were asked for; but in view of the fact that this list gives the outside salaries, I suggest that the secretary should divide them showing how much is chargeable to the Canadian contract and how much to the British contract, and let us have it at the next meeting. Shall we adjourn until Thursday?

Mr. MacNEIL: How much for the commercial division?

The CHAIRMAN: We will adjourn to Thursday at 11 o'clock.

The committee adjourned at 1.05 p.m. to meet on Thursday, April 6, at 11 a.m.

APPENDIX 'A'

BREN GUN CONTRACT

The Financial Divisions of the Bren Gun Contract fall into
Three Parts—1. Preparatory Period—2 years.

2. Production Period—4 years.

3. Special Clauses.

First Part—The Preparatory Period—It has two subdivisions—

1. Costs on which a profit is *not* paid
 - i.e. (a) preliminary expenses \$20,000
 - (b) capital machinery 1,108,000
 and
2. Costs on which a profit is paid
 - i.e. (a) preparatory overhead \$124,000
 - (b) Tools, dies, jigs, etc. 420,000

Second Part—The Production Period—It has two subdivisions—

1. Cost on which a profit is paid,
 - i.e. Cost of production of guns \$3,985,000
2. Cost on which a profit in fact is *not* paid 1,307,000
 - i.e. On the cost of spare and component parts, because the \$267,000 maximum profit has already (by estimate) been attained on account of previous costs.

Third Part—Special Clauses—

- i.e. 1. Stock selling prohibition (Sec. 1)
2. Standard Cost clause (Sec. 6 (A))
3. Lien Clause (Sec. 8)
4. Rejection clause (Sec. 11)
5. Insolvency clause (Sec. 14)
6. Cancellation clause (Sec. 18)

These sections to be dealt with separately.

Common to Parts 1 and 2—i.e. Preparatory and Production Periods—
are the—

“COSTS” mentioned in Section 5.

Such Costs fall into

THREE CATEGORIES

1st Category—Those costs incurred *contractually* by the John Inglis Company with third parties, which consist of

- (a) Employees, and
- (b) Complete strangers to the company—

i.e.,

Employees would include

- (i) Executive officers;
- (ii) Skilled Engineers and Professionals
- (iii) Clerical and labour.

Strangers would include

- (i) Vendors of,—tools, dies, jigs and/or material of all kinds required to complete the contract;
- (ii) Persons to whom royalty and interest is payable (if any);
- (iii) Public Utility Services and general service charges.

2nd Category—Those costs incurred by process of *public law*, so far as they are applicable to the contract;

i.e.,

Assessments—Provincial and Municipal;
Labour Laws—Dominion and Provincial;
Customs Duties and Sales Taxes.

3rd Category—Those costs incurred through *natural causes*, i.e.,

Depreciation;
Repairs and Maintenance.

ANALYSIS OF SECTION 5

Section 5 provides that

All Costs shall consist of the following items

“to the extent that they are incurred in the performance of this contract.” Sec. 5.

Items—Prerequisite for Payment

Royalties—Require “the prior written consent of the” Department (a)

Wages—“subject to the approval of the Minister of Labour” (b)

Salaries—“subject to the approval of the (Government) and to the extent approved shall be allowed as a cost in connection with this contract and be dealt with accordingly”

Any “excess shall not be allowed as a cost within the terms of this contract.” (c) and (f)

(d)?

Engineering Services—“subject to the prior written approval of” the Government. (e)

Materials—“provided always that the price paid for all materials ... shall be subject to the approval of” the Government. (g)

(h)?

Repairs and Maintenance—“all subject to the prior written approval of” the Government (i)

Travelling—“with the prior written approval of” the Government. (j)

(k)

Rental—“subject to the prior written approval” the rental value may be paid when “for reasons beyond the control of the” contractor the plant is actually shut down. Rental otherwise paid is to be refunded at conclusion of the contract. (l)

(m)

Depreciation—On that portion of the set value of \$280,000 “actually used in the performance of this contract” (o)

(p)

Legal Costs—None “unless there has first been secured the written consent of” the Government. (q)

Interest—On money borrowed to build “plant which may be required and approved by the” Government. (r)

Omnibus General Costs Clause.—Only those “approved as necessarily incurred in the preparation and performance of this contract.” (s)

"General Cost Items referred to above in sub-paragraphs 5 (c) (e) (h) (i) (n) (o) and (p) will in respect to the extent that they are incurred in the proper carrying out of this agreement, be allowed in such amounts as the (Government) may approve." (t)

The following items, not mentioned above, namely

- (d) Assessments;
- (h) Public service and supplies;
- (k) Gun tests;
- (m) Customs and Sales Taxes (paid in and out);
- (p) Taxes on land and buildings;

are governed by the opening part of Section 5 and are allowed only "to the extent that they are incurred in the performance of this contract."

Such costs are not subject to approval. They are mostly incurred by reason of public law or necessity and if they relate to the contract as an overhead expense should be paid.

PRICE OF SAID GUNS AND PARTS

The price is composed of two elements—

- (a) all costs plus; and
- (b) percentages on certain costs.

The percentages on certain costs are,—

Per Section 3 (e) clause 5—

- "10 per cent of cost of tools" etc., "*purchased* by the" contractor;
- "10 per cent of cost of tools "*manufactured* by the" contractor;
- "10 per cent of cost mentioned in Clause 4" and clause 4 mentions section 5.

i.e., such costs as are set out in Section 5 of the contract which are

"properly chargeable under this contract . . . up to the date of commencement of manufacture"

And per Section 4 (b)

"10 per cent of all costs" (Sec. 4 (a) "properly incurred in connection with the *manufacture* of the said guns and spare or component parts")

. . . except the following,—

(on which 10 per cent will not be paid)

1. Sales Tax;
2. Customs Duties. . .
3. Royalties. . .
4. Interest. . .
5. Depreciation. . .

All percentages however are controlled by the dominant provision, namely, that is is . . . "Expressly agreed that the total amount (of profit) payable under this contract. . .

shall not exceed \$267,000."

Therefore in reality the "price" is,—all costs plus \$267,000; unless the costs on which a percentage is payable fall below \$2,670,000. The estimates make it very plain that this cannot happen.

The financial phases of the Bren gun contract are more particularly set out in the next detailed statement.

APPENDIX "B"

FINANCIAL PHASES OF BREN GUN CONTRACT

FIRST, to ascertain the limited costs on which a profit is payable, and the profits in dollars on each contract.—Canada and United Kingdom.

1	2	3	4	5	6	7	8	9	10
	Costs	Suggested profit percentages before adjustment	Profit before adjustment	Percentages adjustment	Total profits after adjustment	Canadian portion of profits payable		United Kingdom portion of profits payable	
	\$	%	\$	%	\$	\$	\$	\$	\$
PREPARATION PERIOD 2 YEARS— Costs divided 2/3 and 1/3—									
Preliminary expenses.....	20,000	0		0					
Capital machinery.....	1,108,000	5	55,400	0	12,498	2/3	8,333	1/3	4,166
Preparatory overhead.....	124,984	10	12,498	10	42,075	2/3	28,049	1/3	14,025
Tools, dies, jigs, etc.....	420,749	10	42,075	10					
PRODUCTION PERIOD 4 YEARS— Production costs of guns— Divided 7/12ths and 5/12ths.....	3,985,477	9	358,693	10	*395,427	7/12	230,666	5/12	164,761
	5,659,210	8.28	408,666	7.95	450,000		267,048		182,952
							267,000		183,000

*\$3,121 below actual 10%.

SECOND, to ascertain total costs and percentage the total profit is thereof, the following is compiled.

1	2	3	4	5	6	7	8
	Total costs	United Kingdom	Costs and assets of Canada	Depreciation	Costs of Canada only	Percentage which \$267,000 of cost	Percentage which \$199,500 is of cost
	\$	\$	\$		\$		\$
Preliminary expenses.....	20,000	1/3 6,667	13,333		13,333		\$67,500 is 15% Income Tax on \$450,000
Capital machinery.....	1,108,000	1/3 369,333	738,666	40% (4 yrs. 10%)	295,467		\$ 267,000
Preparatory overhead.....	124,985	1/3 41,661	83,323		83,323		Less 67,500
Tools, dies, jigs, etc.....	420,748	1/3 140,249	280,499		280,499		\$ 199,500
Production costs—guns.....	3,985,477	5/12 1,660,616	2,324,861		2,324,861		
					2,997,483	9% guns only, no parts	6.06%
	1,307,000		1,307,000		1,307,000		
Spare and component parts.....					4,304,483	6.2% guns and spare parts	4.0%
	6,966,210	2,218,526	60% residual value		443,200	5.7%	4.2%

APPENDIX "C"

FINANCIAL PHASES OF BREN GUN CONTRACT

FIRST,—To ascertain the limited costs on which a profit is payable, and the total profits in dollars on each contract—Canada and United Kingdom.

1	2	3	4	5	6	7	8	9	10
	Costs	Suggested profit percentages before adjustment	Profit before adjustment	Percentages after adjustment	Total profit after adjustment		Canadian portion of profits payable		United Kingdom portion of profits payable
	\$	%	\$	%	\$		\$		\$
PREPARATION PERIOD 2 YEARS									
Costs divided 2/3 and 1/3.									
Preliminary expenses.....	20,000	0		0					
Capital Machinery.....	1,108,000	5	55,400	0					
COSTS ON WHICH A PROFIT IS PAID—									
Preparatory overhead.....	124,984	10	12,498	10	12,498	2/3	8,333	1/3	4,166
Tools, dies, jigs, etc.....	420,749	10	42,075	10	42,975	2/3	28,049	1/3	14,025
PRODUCTION PERIOD 4 YEARS—									
Divided 7/12 and 5/12.									
Production cost of guns.....	3,985,477	9	358,693	10	*395,427	7/12	230,666	5/12	164,761
Total—A and B.....									
B	4,531,210		468,666		450,000		267,048		182,952
	5,659,210	8.28	468,666	7.95	450,000		267,000		183,000

* \$3,121 below actual 10%.

FINANCIAL PHASES OF BREN GUN CONTRACT

SECOND.—To ascertain total costs and percentage the total profit is of such costs—

1	2	3	4	5	6	7	
—	Total Costs	United Kingdom	Costs and Assets of Canada	Depreciation	Costs of Canada only	Percentages which \$267,000 is of cost	Income Tax
	\$	\$	\$		\$		
Preliminary expenses.....	20,000	1/3 6,667	2/3 13,333		13,333		15% on \$450,000 is \$67,500.
Capital Machinery.....	1,108,000	1/3 369,333	2/3 738,666	40% (4 yrs. 10%)	295,467		\$267,000 Less 67,500
Preparatory overhead.....	124,985	1/3 41,661	2/3 83,323		83,323		Percentage \$199,500 is of cost—
Tools, dies, jigs, etc.....	420,748	1/3 140,249	2/3 280,499		280,499		
Production Costs—Guns.....	3,985,477	5/12 1,660,616	7/12 2,324,861		2,324,861		
Cost of Spare and Comp. parts.....	1,307,000		1,307,000		2,997,483 1,307,000	9% guns only	6.66%
	6,966,210	2,218,526	60% residual value		4,304,483 443,200	6.2 guns & parts.	4.6%
					4,747,683	5.7%	4.2%

NOTE 1.—The asset-values, paid for by the United Kingdom, reverting to Canada without cost are: 1/3 of machinery—\$569,333 and 1/3 of tools, dies, etc.—\$140,249, a total of \$509,582; while the Profit-Cost to Canada is \$267,000.

NOTE 2.—Had Canada proceeded alone to produce 7,000 guns then the United Kingdom contribution of \$509,582 and the estimated reduction of \$800,000 in production costs of Canada's guns would have been lost. An estimated saving of \$1,309,582 is achieved by reason of placing the two orders with the same contractor.

The United Kingdom cable read—"As regards alternative tender . . . This delay would be fatal to the British interest in the scheme."

Mr. Doe
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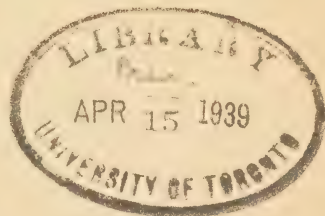
SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 6



Thursday, April 6, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, April 6, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Brown, Ferland, Fraser, Golding, Green, Homuth, Isnor, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Purdy, Rickard, Slaght, Stirling, Taylor (*Norfolk*), Tremblay, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue.

Complying with instructions given by the Committee at its last meeting, the clerk tabled the following documents:—

1. Exhibit numbered 262 filed with the Royal Commission on the Bren Machine Gun Contract;
2. Replies to questions by Messrs. Green and McGeer as to claims under section 3, paragraph (*e*), clause 1, of the Bren Machine Gun Contract.

Examination of Mr. Elliott was continued.

At the request of Mr. Green:—

Ordered: That the clerk obtain information as to whether consent has been given by the Government for the sale of shares or other securities under the second paragraph of clause 1 of the contract.

The Committee adjourned until Thursday, April 13, at 11 o'clock, a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

THURSDAY, April 6, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum now; so if you will come to order we shall proceed. I wonder if I might be permitted, before we start with Mr. Elliott this morning, to see if I can straighten out some of the data that has been asked for in the previous two meetings. We had a statement here of the salaries paid by the company. I do not think that this should go on the record. It does not seem to me to be reasonable to put it on the record, so I am wondering if we could pass it around the committee. I think Mr. Green has a copy of it. You have, have you not, Mr. Green? Did you get a copy of it?

Mr. GREEN: Yes.

The CHAIRMAN: We could pass this around the committee, and if anybody wanted a copy for his own personal information, there is no reason why he should not have it, as far as I can see. But I do not think it should go on the record.

Mr. MACNEIL: We can get access to it in room 504?

The CHAIRMAN: Yes, or we can pass it around, if you like. I would suggest keeping it in room 504.

Mr. MACNEIL: It does not matter.

The CHAIRMAN: I think that would be the better thing.

Mr. MACNEIL: I am not suggesting that it should be put on the record.

The CHAIRMAN: I think if we can get at it in room 504, it would be all right. We can turn it back now, and it will go to room 504.

Mr. McGEER: May I see that? I have not seen it yet.

Mr. GREEN: Why should it not go in as a schedule or an exhibit?

The CHAIRMAN: The only thing that seems objectionable to me about that is that it might not be in the public interest. I mean, after all is said and done, both the British and Canadian governments are partners or are connected with the deal, whichever way you want to put it.

Mr. GREEN: For instance, I do not know why Major Hahn's salary should not be on the record.

The CHAIRMAN: You can ask that question and get it on the record.

Mr. GOLDING: Does that document show the salaries of all the employees?

The CHAIRMAN: Yes.

Mr. GOLDING: There is not any firm which would want that published, because you have some employees that are worth more than others. It would cause a lot of dissatisfaction in the plant itself if this information gets spread all over.

Mr. GREEN: Of course, the government is interested in this matter because we are paying the salaries.

Mr. GOLDING: I know. But you would not want that if you were the head of a plant. It is all right to have it for your personal information, if you want it, but you would not want to have it spread all over.

The CHAIRMAN: Do we not serve our purpose, as far as the committee is concerned, by having that information available? I really do not think it is fair to any company to publish it.

Mr. ISNOR: What good purpose is to be served by putting it in the record, Mr. Green, if I may ask?

Mr. GREEN: It shows the split up. It shows what percentage of the salaries is chargeable to the government and what percentage is chargeable to the John Inglis Company.

Mr. ISNOR: Could not that be done without mentioning the items?

The CHAIRMAN: Have we not a dual responsibility in this committee, gentlemen? We have a public responsibility as well as an investigating or probing responsibility. I think it is for this committee to decide whether, as a committee, we should make public that break down of salaries. It is a question of what is the proper thing to do.

Mr. GREEN: Perhaps it could be done in this way: Mr. Burgess could figure out how many employees are covered by this statement and of that number how many are being paid in full by the government and how many are getting two-thirds of their salary paid by the government.

The CHAIRMAN: Would this suggestion cover your point, Mr. Green? You prepare the three or four questions you have in mind and give them to me, and I will have it broken down and then answer your questions at the next meeting. Will that do?

Mr. McGEER: For instance, you have to examine cost accountants.

Mr. MACINNIS: I am not insisting that these salaries should go into the record. However, I should like to point out that I think that this contract is somewhat different from a contract with the ordinary private company, because this company did not begin operations until the day after the contract with the Canadian government was signed, and would not be in operation at all if they had not get this contract.

Mr. McGEER: There is no evidence of that.

Mr. MACNEIL: It is so stated in the prospectus.

Mr. McGEER: Where in the prospectus? I have read the prospectus and I have not seen that.

Mr. MACINNIS: I am not pressing the point.

Mr. McGEER: It is stated in the prospectus that they have this contract; but there is certainly nothing in that prospectus which states that they would not be in operation if they did not have the contract. On the contrary, the evidence before the inquiry was that they purchased the plant and had the plant before they knew that they were going to get this contract, and that this contract coming up was a development after these men had acquired that plant.

Mr. HOMUTH: Mr. McGeer's statement is not just in accordance with the evidence.

Mr. MACINNIS: Mr. McGeer is not giving evidence.

Mr. HOMUTH: They had not purchased the plant. They simply had an option on the plant, and they had paid a very small sum down on it up to the time the contract was signed, a sum less than \$3,000.

Mr. MCPHEE: Is there any evidence of that?

Mr. HOMUTH: It is in the evidence.

Mr. MCPHEE: Where?

Mr. HOMUTH: You will find it in the exhibits.

Mr. SLAGHT: I think he is quite mistaken. If Mr. Homuth is going to make statements of that kind, it is time somebody quoted from the evidence.

Mr. GREEN: I wonder if we could get back to the point?

The CHAIRMAN: That is what I have been waiting to try to do.

Mr. GREEN: I would be satisfied if you had printed in the evidence the positions, the salaries and the percentages paid, leaving out the name of the employees. That would get over the objection.

The CHAIRMAN: Can we give that in a block figure? Can we give that in the total?

Mr. GREEN: No. I do not see any reason why you should not list the different positions or jobs, the salaries that are being paid and the percentages that have been approved by the government as chargeable to the government. I do not care about the names. You can leave them out.

The CHAIRMAN: I wonder if we could meet the situation in this way. Do not misunderstand me. I am not trying to get around your request at all. But I do know that in some other instances mechanics have been taken from one company to another. In other words, I know there are companies engaged in the production of munitions or equipment in Canada to-day that have caused each other a very considerable amount of trouble by outbidding their competitors for artisans or mechanics.

Mr. MACINNIS: Are mechanics included in this list? Are their wages not set by the Department of Labour?

The CHAIRMAN: I do not know whether their wages are set by the Department of Labour or not. You have designers, electricians and plant superintendents.

Mr. MACINNIS: That is the technical staff.

The CHAIRMAN: The technical staff.

Mr. MACINNIS: They are not mechanics.

The CHAIRMAN: I wonder if the committee would be satisfied to leave it to Mr. Green and myself to work it out satisfactorily? You and I, Mr. Green, can decide what is in the public interest.

Mr. MACINNIS: We have to consider the public interest.

The CHAIRMAN: Yes. Would that be satisfactory to you, Mr. Green?

Mr. GREEN: I am pretty obstinate.

The CHAIRMAN: You will notice that I made that suggestion without any timidity, though. Is that satisfactory?

Mr. GREEN: Yes, that is all right. Mind you, I do not see any reason why the figures of Major Hahn's salary should not go in to-day.

The CHAIRMAN: All right, you can ask that question. I will answer that question now, if you like. Do you want to put that on the record?

Mr. GREEN: The report shows that the salaries approved by the government are as follows: Major Hahn, amount of annual salary, \$10,000 sixty per cent of which was chargeable to the Bren Gun Contract; W. T. West \$4,200 of which 60 per cent is chargeable to the Bren Gun Contract.

Mr. MACINNIS: Would you complete the figures there? There is another column.

The CHAIRMAN: No. That is on a separate sheet.

Mr. GREEN: Of course, that is divided in the proportion of two-thirds to Canada and one-third to Great Britain.

The CHAIRMAN: There is absolutely no reason why that sheet should not go on the record.

Mr. ISNOR: What useful purpose is served by putting it on the record, Mr. Green?

Mr. MACNEIL: It is on the record now.

The CHAIRMAN: There can be no exception to that. Then, together, we will work out this other schedule. That is all right now, is it? That is all you want to put on the record now?

Mr. GREEN: In the meantime.

The CHAIRMAN: All right. Now gentlemen, question No. 2 was:

What additional plant was approved by the government under section 5, paragraph (r)?

The answer to that is:

No addition plant has been approved by the government under section 5 (r), nor has any request been received from the John Inglis Company for any such approval.

Mr. MACINNIS: What is the authority for that statement?

The CHAIRMAN: The deputy minister. Now, question 3.

Mr. SLAGHT: Who asked the question which is just being answered?

The CHAIRMAN: Mr. Green. Question No. 3 is:

What interest on bank loans—

Mr. GREEN: Clause 5 (r) has to do with bank loan interest.

The CHAIRMAN: Yes. That is covered, Mr. Green, under the item 3 that I am going to answer now.

Mr. GREEN: All right.

The CHAIRMAN: That is covered under a break down under figure 3 that I will answer now.

Mr. GREEN: What is 2—what section?

The CHAIRMAN: Your question here was, "What interest on bank loans has the government paid under section 5, paragraph (r)?"

Mr. GREEN: Will you answer that one?

The CHAIRMAN: The answer is, "No interest on bank loans has been paid, and as no approval has been given to the company, the government is not responsible for any amount."

Mr. GREEN: Question 2 should not be 5 (r). It is some other paragraph.

The CHAIRMAN: It is covered in the paragraph (r), if you will read it—the last line there.

Mr. GREEN: The second question has been put in wrong, because they both refer to 5 (r)—both 2 and 3.

The CHAIRMAN: They are both covered by 5 (r).

Mr. GREEN: "Additional plant" does not come under 5 (r).

The CHAIRMAN: "Providing any additional plant which may be required and approved by the party of the first part" under (r).

Mr. GREEN: Oh, I see.

The CHAIRMAN: Have you got that?

Mr. GREEN: Yes.

The CHAIRMAN: So that answers those questions?

Mr. GREEN: There were some further questions.

The CHAIRMAN: I know there were. I am trying to find them. While Mr. Burgess is trying to find this other letter, I can go on with this. This is the file covering the \$20,000 preliminary expense item. This file here is a complete

file which was filed by the Inglis Company counsel before the Davis commission, not approved, but procured from the treasury department. I would suggest that we leave that in room 504 in our possession, for anybody's inspection, because all the details are in it.

Mr. GREEN: What is the total amount?

The CHAIRMAN: The actual cost as per accounts and vouchers attached, \$25,171.12.

Mr. GREEN: That is for preliminary expenses of Hahn?

The CHAIRMAN: Yes. It is extended into the total amount of \$20,000 covered by the item. All the details are there and they will be available.

Mr. GREEN: It has not yet been approved or rejected?

The CHAIRMAN: The answer is that it has been rejected.

Mr. HOMUTH: All of it rejected, Mr. Chairman?

The CHAIRMAN: The questions are:—

Q. What claims have been made to date?—A. One.

Q. What claims have been approved by the department?—A. None.

Q. What claims have been rejected by the department?—A. One.

There is the file.

Mr. GREEN: I think we should know definitely whether the government has decided to pay preliminary expenses or not.

Mr. HOMUTH: Surely if these accounts have been in the possession of the government since prior to the Davis inquiry, some action should have been taken on the whole thing, either approval or disapproval.

The CHAIRMAN: The answer to that is that they have been rejected.

Mr. HOMUTH: They have rejected the whole preliminary expenses?

The CHAIRMAN: Yes.

Mr. HOMUTH: I thought there was one.

The CHAIRMAN: There were three questions in the series. One question was, "What claims have been rejected by the department?" The answer is "One."

Mr. GREEN: Why do they not say that the whole claim has been rejected?

Mr. MACNEIL: This claim involves a number of items; one claim might be rejected but the others not. The answer is not clear.

The CHAIRMAN: I understand that is the invoice covering one claim. The details of that claim are there. The questions have been answered, 1, 2 and 3, pertaining to this one invoice or claim made up and broken down into these different statements.

Mr. GREEN: It surely would be a simple matter for us to get somebody here who is in a position to say that there are to be no preliminary expenses paid.

The CHAIRMAN: Well, I wonder if this will not be the *modus operandi* on that: You and Mr. Homuth asked some questions and the deputy minister answered those questions, and as he will appear as a witness you can put the question to him direct. That is in answer to your statement that you wondered whether or not it was possible to get somebody here to answer.

Mr. HOMUTH: We have put on the record to-day evidence to the effect that a claim was made covering \$25,000 which has been broken down to \$20,000 and that it has been rejected. That would leave the impression that there will be no preliminary expenses paid whatever. We do not know whether that is a fact or not, whether there will still be preliminary expenses submitted. I think the evidence is misleading at least to have it go on the record that this claim has been rejected. The deduction from that will be that there will be no preliminary expenses paid.

Mr. SLAGHT: Mr. Chairman, what business is it of this committee as to whether some preliminary expenses are ultimately paid or not? That is not a problem that is before this committee. This has been rejected, and it seems to me that we are wasting time to go into items that have been rejected.

Mr. GREEN: Mr. Chairman, our duty is to investigate this whole contract. The contract calls for the payment of preliminary expenses up to a maximum of \$20,000. We are certainly entitled to know whether Canada is going to have to pay that \$20,000, or any part of it; and I submit we are quite in order in asking questions along that line.

The letter from General La Fleche of April 3, addressed to Mr. Burgess sets out my first question:—

Amount the government is responsible for, as well as actual expenditures, under section 3, paragraph (e), clause 1?

The answer is:—

The government is responsible for an unknown amount, not exceeding \$20,000, but subject to the control of the department. There have been no expenditures to date.

In other words, General LaFleche apparently considers that the government is actually responsible for some amount; yet from the other statement which you have read you say by inference that only one claim was made and as one claim has been rejected therefore nothing is to be paid. I think we are entitled to have that position made absolutely clear.

The CHAIRMAN: I entirely agree with the honourable member's premises that we are entitled to have it made clear. Consistent with that, up to the present minute, I gave you the answers as I have them to questions 1, 2 and 3, and I suggested that those be filed in our office and when General LaFleche, who I presume is the proper one to answer, comes before the committee, we can take his evidence and get the information required. Or do you suggest any other method in the meantime?

Mr. MACINNIS: I think that is the proper course and, if a motion is necessary, I move that that be done.

Mr. GREEN: We do not need a motion for that.

Mr. McGEER: There is no possible chance of your not having an opportunity of getting the information that you have on the record, because, even if the committee decides not to print, there is no way by which you can be prevented from asking questions about it, either from the deputy or Major Hahn or the cost accountants who are going to be called. The only fair attitude, I think, is to deal with these items when the officers or the officials in charge of them are here to explain them in full. Putting them on the record now without dealing with them, of course, might lead to one or other inference which is not fair. While, as I say, all the facts should come out, I think we should all agree that in a matter of this kind we are not only dealing with the defence of Canada but in part with the defence program of Great Britain.

Mr. GREEN: I do not think an item of \$20,000 of preliminary expenses has much to do with the defence program of Great Britain.

Mr. McGEER: Great Britain is paying a part of it. Of course, in all contracts of this kind there are a great many criticisms that can be levelled at details. But what the people of Canada I think want is to know whether or not we are getting Bren guns and whether we are getting them at a fair and reasonable price. On the other hand, there may be some people in Canada interested in believing that there are some details in this thing which are subject to criticism for purposes that are really not associated with the defence of either Canada or the Empire.

Mr. GREEN: Now you are getting on dangerous ground.

Mr. MACNEIL: No innuendos.

The CHAIRMAN: Order, gentlemen.

Mr. HOMUTH: Do not let us have any of these political speeches. I did not think Mr. McGeer would resort to that method.

The CHAIRMAN: I submit to my honourable friend that this investigation would not be nearly as amusing, interesting or entertaining if we did not have an interjection from both sides of the table from time to time.

Mr. SLAGHT: Before you pass this over, Mr. Chairman, I assure you I never make political speeches—

The CHAIRMAN: It must be the Easter season.

Mr. SLAGHT: In order that there will be no misapprehension about this matter, may I suggest to the committee that this is the position in reality: My friend has quoted inaccurately and inadvertently that this is an item indicating that they are bound to pay \$20,000. In the first place, that is not what the contract says.

Mr. GREEN: Do not put words into my mouth.

Mr. SLAGHT: They are in the record.

Mr. MACNEIL: No, no.

Mr. SLAGHT: Up to \$20,000. The position is that an account has been rendered, I think, of \$25,000, and it has been rejected.

Mr. GREEN: That is what we do not know.

Mr. SLAGHT: Yes, you do know; it is in the record.

Mr. MACNEIL: It is not clear that it is rejected in toto.

Mr. GREEN: Because this—

Mr. SLAGHT: This gentleman has been talking a good deal, may I finish?

Mr. GREEN: I do not want to be misquoted. I read the letter from General La Fleche which says that the government is responsible for an unknown amount, and my friend from Parry Sound—

Mr. McGEER: For an unknown amount within the limit of \$20,000.

Mr. SLAGHT: Is this committee going to set itself up as an accounting body and going to take to itself the right to pass upon the items that may be presented in the future under this or any other contract? We have accountants and we have a department which will carry out the terms of this contract. And is my friend going so far as to say that if proper items are allowed by the accounting department he wants to repudiate the contract that is signed and squirm out of \$18,000 or \$16,000, and yet stand by all the benefits that the government are receiving? Surely, we are not that kind of a body.

Mr. HOMUTH: That is a pretty good political speech.

The CHAIRMAN: Gentlemen, order. I assure you I am not going to make a political speech.

Mr. MACINNIS: We had that assurance already.

The CHAIRMAN: This is a serious one. First, there is a clause in the contract which provides for \$20,000. Second, an account has been rendered covering \$20,000. Third, we have an answer which says only one account has been rendered, and up to the time this letter was written that account was rejected. Now, we shall have General LaFleche here.

Mr. GREEN: We also have a letter from General LaFleche which says that the government is responsible for an unknown amount not exceeding \$20,000.

The CHAIRMAN: In view of my hon. friend's question, we will have the writer of this letter, the Deputy Minister of the Department of National Defence, here and the members of the committee will be able I am sure to

procure the information they require one way or the other. And if it is permissible, or agreeable, in the meantime the account and the breakdown of the item detailed will be placed in the hands of Allan Fraser, who is assisting our committee in this respect, and it will be available to members, and then you will be able to ask questions when the matter again comes before us.

Mr. McCANN: Is it not taken for granted by everyone that another account of this kind revised will be submitted, and that it will not exceed \$20,000. The definite answer has been made that the account as submitted up to the present time has been rejected.

The CHAIRMAN: That is the position.

Mr. MACINNIS: I think that is right.

The CHAIRMAN: May we proceed now?

Mr. McLEAN: I would like to ask if you intend to spend money printing the record of the last forty minutes, or if that is to be wiped out?

Mr. McGEER: I think it is most important, Mr. Chairman.

The CHAIRMAN: I am afraid to answer that question.

Mr. McLEAN: I would just like to say this; from time to time objection has been made to the needless and wasteful expenditure of money on printing and other things, that has been heard from all sides of the house. In view of that, I suggest that with respect to our proceedings this morning only such material as may be presented in the form of evidence should be printed, I think that is all that is of value to us.

The CHAIRMAN: Of course, I say to my hon. friend, who is going to make the decision as to what evidence is going to be printed. I have done my best in the last forty minutes to answer these questions.

Mr. McLEAN: I do not think this is of any value on the record, and certainly not of any interest to the country.

Mr. MACINNIS: It certainly is a matter of interest to the country.

Mr. McLEAN: The country surely is not interested in this cross-fire that has been going around the table, that is not evidence.

Mr. GREEN: May I assure my hon. friend that I am not wasting time; it is he who is now wasting time.

Mr. McLEAN: I have taken half a minute to protest against the waste of time and expense in the printing of the general discussion which has been going on during the last forty minutes. I think it is all nonsense.

The CHAIRMAN: May I proceed: The next question before me, also presented by Mr. Green, relates to the amount the government has paid, or is responsible for, under section 3 paragraph (g) for the conversion of the plant. The answer to that is: In accordance with the authority in section 3 (g) of contract agreement an amount of \$3,880.36 has been paid on behalf of the Canadian government for the conversion of the plant. The Canadian government is responsible to date—which is answering the rest of the question—for a further \$1,127.80 for the conversion of the plant under the authority of section 3 (g) of the contract.

Now, gentlemen, that leaves on the record all the questions to be answered which we are now in a position to answer until our next meeting. We will now proceed with the witness, Mr. Elliott.

Mr. GREEN: Would you read the rest of that letter?

The CHAIRMAN: You have a copy of it there, Mr. Green, it is on the front of the statement showing the salaries of executive officers and others of the John Inglis Company Limited approved by the department and chargeable to the contract—it is attached to the statement which is now being circulated around the table—during the preparatory period the Canadian government and

the British government will pay two-thirds and one-third respectively of the salaries approved; which is an extension that we made of the statement that was not broken down. During the production period the Canadian government will pay the actual cost for the cost of equipment purchased in accordance with the agreement and the British government will pay the actual cost for the equipment purchased in accordance with their agreement, and the actual cost will be obtained through the cost accounting system operated by the company under the control of the Canadian government.

Are there any other questions before we proceed with the witness?

All right, Mr. Elliott.

C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, Department of National Revenue, recalled:

By Mr. Hornuth:

Q. Mr. Elliott, there was the matter the other day that we were asking about with regard to income tax, and under this contract is there any special arrangement made by the government and the John Inglis Company in so far as income tax is concerned that the income tax would be collected on this contract or would it simply be part of the general work of the John Inglis Company?—A. Part of the general work of the John Inglis Company.

Q. Now then, in the evidence which came out in the Davis investigation it showed a complete set-up of a capitalization of \$1,500,000 for the John Inglis Company, and they had an appraised value put on the plant which runs much over \$1,000,000. Now, when they submit their income tax return they will naturally put in the value of the plant and the value of the machinery at such sum as is covered by the capitalization or their valuation, and they would be entitled under the Income Tax Act to ask for and be allowed depreciation on these items, would they not?—A. No. I would not think so. You are moving a little outside of the terms of the contract here and I am prepared to move out with you. You are asking for income tax information, and I will answer you if I may.

Q. My reason for asking you is this set-up seems such a fine way through which the company might reduce their income tax liability, or their return under the contract?—A. Quite right. If I may answer, it will take a little explanation.

Q. Yes?—A. I observe your last point. Comments have been made on income tax relating to the profits made by the company on this contract. This contract is only one of others that the company may or may not have, I do not know; but at the end of their fiscal period they will have to submit their accounts in the same manner that all other companies do, and they will be scrutinized by the income tax officials in the usual manner, and it is not altogether unusual that where a company wants to write up its assets for the purpose of making a better balance sheet for many objects, perhaps—and I emphasize this—they would not be getting as much depreciation as you have implied. Only recently we had a case in British Columbia where they re-incorporated a company on an appraised value and set up the assets in the new company owned by the same shareholders that were in the former company. We said, no; we will give you the depreciation on the original cost to the preceding company. They objected and said well, the new company pays for the assets in kind, in shares really, of the new company, and that being a legal sale and everything being perfectly legal the new company is entitled to the increase in depreciation, depreciation on plant and equipment. However, depreciation is a matter under the income tax law and is put in the discretion of the minister who must allow that which is reasonable.

Q. Quite?—A. Reasonable means, having regard to the investment by the purchasing concern on the moral as well as the legal form—looking to the substance, if you like—to use a reasonable amount; that is, what was paid—and

we gave depreciation on the original cost value. They appealed to the exchequer court whose decision supported the view of the department and so did the Supreme Court of Canada. So the answer to your question is: by the income tax ruling supported by these decisions, that we would not have to allow depreciation on the \$1,000,000—whatever it is—and \$288,000—so that part on which depreciation is allowed will be on the actual cost. I am not going to determine it now, but my information very strongly will be that it will be on \$250,000 cost. If we took that in this contract then it is equally to be assumed that we would do the same with respect to other contracts.

Q. Then, Mr. Elliott, here is a company which has this contract and has started up a commercial business; and naturally, in the preliminary stages of a commercial business there is a possibility of their suffering a loss in the initial stages of operating a commercial business. They may make a profit or they may make a loss. Any loss that they may sustain would naturally reduce their profit, so that instead of paying this sum of \$67,500 as more or less of a profit to the Canadian government as income tax, it is not a very fair set-up, because it can be based only on the question of how profitable their commercial business is; is not that the fact?—A. This contract has to be taken in conjunction with other contracts the company may have. In the aggregate some may be successful and more may not. It may be that he will lose out on this contract and thereby the profit made on others will be reduced; or it may be just the reverse. Only at the end of the year can you tell that.

Q. So that the picture of putting this income tax in is not very sound?—A. I would say it is sound as an expectancy of profit.

By Mr. Green:

Q. No, because you may make a profit on the Bren guns and a loss on the commercial business, which is equally important?—A. Just as sound as the expectancy of profit on any contract.

Q. You do not tax income tax on an individual contract, you tax them on the total profits of the firm?—A. If you just listen carefully to what I say, that assumption in relation to the profits on this contract is as sound as the assumption of profits on any other contract; or, if you like the word "losses," losses; because the losses on this particular contract will offset the gains on other contracts and vice versa. Therefore, in answer to Mr. Homuth's question, the inclusion of income tax considerations in this statement is as sound as the hope of making profits under all the contracts.

By Mr. Homuth:

Q. And there may not be \$65,000 collected at all in income tax?—A. Certainly, it all depends upon the success of the contract.

MR. GREEN: All the success on this contract may be lost through reverses on commercial contracts; that would have to be taken into consideration.

THE WITNESS: Quite so, the aggregate cost of the business.

By Mr. MacInnis:

Q. And the government will be paying out \$267,000 as profits on the Bren gun?—A. That is also problematical. That will have to wait until we see what proportion of rejections there may be. The losses on account of rejection may offset all of that and more. You are dealing in the realm of possibilities; we must work in the realm of the possible, and as well in the realm of the contingently possible.

MR. McGEER: The difficulty that we are confronted with is that they say the profits are going to be enormous, but when it comes to a question of the actual figures it may turn out that their estimate of potential income tax commitment will not be quite what has been indicated.

[Mr. C. Fraser Elliott.]

Mr. HOMUTH: Just a minute, Mr. McGeer is just making a political speech.

Mr. HOMUTH: The fact of the matter is, I do not think there has been any great criticism as to the question of just what the profits on the gun are going to be. The criticism has been that a private contractor through a public agency is being given an opportunity of setting up a financial organization which, if they had been able to sell their stock on the market, might have made it possible for them to make a million, or several millions of dollars. That is what we protest against.

The WITNESS: Well now, gentlemen, to start this off in the continuity that we have fairly well followed: the first day I analysed the interest, yesterday the contract and its legal side giving its several contractual features. Yesterday I analysed it on its financial side, and now to-day I suggest that we either agree to go upon the first analysis of the contract as a whole or to go upon the analysis I made yesterday of the financial statement. And if we do that we will start in with exhibit (a); and if we go through that again and on all questions that anyone would like to ask let us stop and deal with them as we go along, then when we cover it a second time in detail I think we ought to be through.

By Mr. MacNeil:

Q. Exhibit (a) being an asset analysis?—A. Yes.

The WITNESS: Now, are there any questions on the analysis wherein we put the contract into its three parts, the preparatory period, the production period—I have split that into two sub-divisions; that is, the cost on which profit is not paid—that is, the preliminary expenses of \$20,000. Now, I will answer any questions on that if anyone wishes. If not, there is no profit on the capital machinery of \$1,108,000.

By Mr. MacNeil:

Q. I understand you to say in the draft contract submitted to the inter-departmental committee provision was made for a profit of 5 per cent?—A. That is correct. In the second sub-division of the first part are the costs on which a profit is paid. The amount in the preparatory overhead is \$124,000. They get 10 per cent on that, \$12,498; likewise tools, dies, gigs, so forth, \$420,000. They get 10 per cent on that, and that exhausts the preparatory period.

By Mr. Green:

Q. Those are your estimated costs?—A. Those are not my estimated costs; they are the estimated costs given to us by the technical officers of the defence division working in conjunction with the officers of the company and England, because England is equally concerned in these costs as we are. That exhausts the preparatory period.

Then we come to the second part, the production period. It likewise has two sub-divisions (1), costs on which a profit is paid, that is the cost of making the guns in the four years, \$3,985,000. Probably you will recollect these costs are referred to in section 5 of the contract. Then, we have costs on which a profit in fact—these words are important—is not paid. That is \$1,307,000. Because we believed in those estimates we placed our 10 per cent profit on that, and we fixed the maximum profit that the contractor could get in relation to the then known, by way of estimate costs, and the contractor and we were unaware of what would be the balance of those unknown costs so we did not contract into the dark; but we said, you must contract, Mr. Contractor, into the dark, because we will not give you 10 per cent on something that we do not now know about. So the contract was struck in that way. That is on the cost

of spare and component parts, because the \$267,000 maximum profit has already (by estimate) been attained on account of previous costs. There is, in fact, no profit on the \$1,307,000 if our estimates are correct.

Q. That really should be \$450,000 costs, should it not, because you are lumping in the cost of the whole 12,000 guns?—A. Oh, no, decidedly not. This \$1,307,000 is spare and component parts ordered by Canada alone. England is not ordering spare and component parts; therefore the \$450,000 does not relate to that figure in any way.

Q. It relates to the previous figure of \$3,985,000?—A. Yes, that is correct.

Q. And you have included the British figures in all your other— —A. They are very easily substituted, Mr. Green, if you will read the financial statement I gave you. If you will simply read column 4 in the second paragraph of the statement, it is just two-thirds of all the figures; but I am merely identifying them because in column 2 of my statement they are easily identified.

Q. The maximum profit is really \$450,000?—A. On the two contracts, that is correct. When I speak of \$267,000, because there are two contracts, I also must imply \$183,000 for the English; therefore there is no subtlety or no deceit or no misleading there. When I mention one or the other, gentlemen must know that we are talking Canadian money, and I rather like to talk of Canadian money. When I am talking about costs like \$1,307,000 that Canada is going to pay I am not referring to England at all; England is not in on that.

Now, then, the third part of the contract from the financial point of view is those special clauses which took up here and there various pertinent phases. Perhaps we should leave them until we come into the actual figures, but we will go back to them. Now, if we go to the part common to the production and preparatory periods we must go to the costs mentioned in section 5. These costs fall into three categories. I might really sum them all up in one statement, and I think if the contract had been drawn with this language substitution in it then there could not have been so much to point out as being in the contract by actual identification. Had we said, the party of the first part shall pay all costs that are necessarily incurred in the manufacture of Bren guns to the state of acceptance by the government less all costs incurred for improper work and rejections, we would have simply said all the normal business costs will be paid but nothing more. I think everybody would accept that. Instead of putting it into three parts or categories we could have summed them all up in the general statement. But let us analyse the generality of these expenses. You will find that into the first category fall those that are contractually entered into by the John Inglis Company with employees, and secondly complete strangers. Now, it is a contractual relationship and when you come to look more closely, as I have developed it later on, that contractual relation entered into by the John Inglis Company with these men must be approved by the department first; but they contract with their employees and they contract with strangers. The employees would include the company's executive officers and skilled engineers and professionals. Someone may quarrel with the word "professionals." But what I really meant was lawyers they employed. It is a contract when you go to a lawyer; it is a verbal contract.

Mr. HOMUTH: Sometimes a bad one.

The WITNESS: Then the third one is of lesser importance. The third one is clerical and labour, and it is of lesser importance. Then, they must contract with strangers. That would include vendors of tools, dies, and jigs that they buy already made or the material that they purchase in order to manufacture such implements. Those are all straight contracts for the purchase of goods and the supplying of material. Then, they must make contracts with persons who have patents and the thing that is patented which they want to use in the manufacture of these guns; so they have to pay a royalty; it is a contractual relationship; likewise interest on money. We will not pause on that at the moment, because when we get to section 5 we will develop that a little more in detail.

[Mr. C. Fraser Elliott.]

They contract with public light services; that is light, telephone and such kinds of continuous and necessary services we have with us every day and hardly know we get them. Then, we have general service charges such as drawing, haulage, and special jobs around the place that show no particular asset and exhaust themselves at once; nevertheless, these are also contracts with strangers. These are the contractual obligations that the company enters into, subject to the approval by the crown.

We come now to the second category of costs, those incurred by process of public law; that is, only so far as they are applicable to the contract, because that is the way section 5 opens. It says only those expenses that are incidental or related to the carrying out of this contract. There are assessments, provincial and municipal. Every business has to pay those local taxes and it is a necessary overhead that goes into the cost of the thing you are making and so into the price that you get for it. Likewise labour laws and workmen's compensation. Then, I think there are some of the dominion laws that you gentlemen know better than I do, and perhaps some insurance. Then there are customs and sales taxes. These are public law expenses and there is no possibility of avoiding them and yet conforming with the laws of the land.

We now come to the third category and they are the costs incurred through natural causes. Of course, every building suffers depreciation; every plant suffers depreciation. The natural use of the plant causes break-downs, and they have to be repaired. These are the depreciation repairs.

We have been talking about costs in these three categories. We now come to section 5, which is the section on costs. I am not going to dwell on that particularly. It mentions royalties, wages, salaries, engineering services, materials, repairs and maintenance, travelling, rental, depreciation, legal costs, interest, and then we come to the omnibus clause.

By Mr. MacNeil:

Q. Just on that item of engineering services; there is nothing in section 5 which indicates the period at which these engineering services shall be— —A. I think that is correct.

Mr. McGEER: It does not include preliminary engineering services.

The WITNESS: Just let us read it. Section 5 paragraph (e) says:—

Cost of engineering services, whether such services are performed by engineers employed by the party of the second part or are furnished by others, provided that any engineering services furnished by others shall be subject to the prior written approval of the party of the first part.

By Mr. McGeer:

Q. This has to be read in conjunction with section 1?—A. Oh, certainly.

Q. When he asks you the question that this does not limit it to any period, it is limited to the period after the preliminary work, by reading that section along with section 1, which puts the preliminary work at the upset limit of \$20,000?—A. It comes in section 1 perhaps more extensively. It states:—

The costs referred to in section 4 (a) hereof shall consist of the following specific items to the extent that they are incurred in the performance of this contract.

Therefore the period is really the period of the contract.

Then we come to the omnibus clause, and that is very much like my opening statement. It says:—

Only those "approved as necessarily incurred in the preparation and performance of this contract."

That omnibus clause is put in out of caution. If those specific items that are mentioned do not mention everything, then this omnibus clause comes in—

By Hon. Mr. Stirling:

Q. Reference was made the other day to the purchase of office equipment. Does that come under the omnibus clause?—A. Office equipment that would be used up apparently during the currency of the contract would be an expense of the contract. Office equipment that had a life longer than the currency of the contract would only be allowed to the extent of the depreciation of the asset used. Now, in the specific items of the omnibus clause, in running them over, I left out assessments, public services, gun tests, customs and sales tax, and taxes on land and buildings. These were left out because these are the only specific items mentioned where the specific item is not covered by the series of clauses. For example, "subject to the prior approval of the government," or "subject to the prior written approval of the government," and so on. Every item except the ones I just read, assessments, public services, gun tests, customs and sales tax, taxes on land and buildings, are governed by this permissive clause. These belong to the public law category and are apportioned and governed by the opening clause in section 5, "... to the extent that they are incurred in the performance of this contract."

Now, are there any questions on section 5 before we pass on?

We come now to the price of the said gun and parts. The price is composed of two elements: all the costs plus percentages on those costs that were recognized on which the percentage is payable. I have summed up all these costs, and I quote from section 3, clause (5):—

Ten per cent of the cost of tools purchased by the contractor;
10 per cent of cost of tools manufactured by the contractor and 10 per cent of costs mentioned in clause (4).

Then you have to go to clause (4) and you find it mentions clause (5), and clause (5) refers to these costs properly chargeable to this contract up to the date of the commencement of manufacture. That is the preparatory period. Then we find another 10 per cent in section 4 (b), 10 per cent on all costs. Now, section 4 (a)—I quote from it because it is referred to—says, "properly incurred in connection with the manufacture of the said Bren gun and spare or component parts thereof." But we shall not be liable to pay 10 per cent on sales tax, custom duties, royalties, interest and depreciation. All percentages are controlled—

By Mr. Homuth:

Q. Just a minute. I should like to ask a question about royalties. Are you dealing with royalties on the patents which they might use or royalties payable to—A. To third parties.

Q.—the patentee of the Bren gun.—A. No; royalties paid to third parties.

Q. To third parties?—A. Yes.

By Mr. Brown:

Q. Who would determine the cost of that work, if the John Inglis commercial company manufacture some tools and jigs, say, for John Inglis Bren Machine Gun Company?—A. Anything they buy is subject to the prior approval of our officers, and those officers would have to inquire as to the price from—I think you called it—the commercial company; they would have to inquire the price at which they would get the goods they were getting from that company as against the price they would get the goods from anybody else. If they are not alert, they can beat us in several directions. If they are alert, they can beat us in no direction.

Q. Can they not get 10 per cent of the cost to the John Inglis Company?—A. Yes.

Q. Quite so.

[Mr. C. Fraser Elliott.]

By Mr. MacInnis:

Q. Before you pass from clause 4, section (a), I should like to ask a question. I understood you said earlier this morning that 10 per cent was not paid on the manufacture of spare and component parts?—A. I did.

Q. We have in section (a) here, "properly incurred in connection with the manufacture of the said Bren gun and spare and component parts thereof."—A. That is right.

Mr. MACNEIL: What page is that?

Mr. MACINNIS: Page 5.

The WITNESS: May I take you through an analysis of the contract from that phase, just to try to answer that? If you refer to clause 5, in the earlier part, that is where the "10 per cent of all such costs" is mentioned; that is section 4 or clause 4.

By Mr. MacInnis:

Q. Clause 5, which section?—A. Yes. Then we have to go from clause 4 to clause 5, to follow your statement.

Q. Yes?—A. And clause 5 makes the statement, "properly chargeable under this contract up to the date of commencement of manufacture."

Q. What page are you quoting from and what paragraph?—A. I am quoting from section 5.

Q. Section 5 of clause 5, is it? What page is he quoting from?

Mr. MACNEIL: Page 3, in the centre of the page.

The WITNESS: If anybody is looking for anything, I am looking for the quotation in section 5, "properly chargeable under this contract up to the date of commencement of manufacture." If anybody finds it, I wish they would let me know, because I am wasting time looking for it here.

By Mr. MacInnis:

Q. That is on page 3, I think; it is number 4 on page 3.—A. Oh, yes, that is clause 4. Clause 4 is governed by that, "properly chargeable under this contract." "Properly chargeable" implies by the word "properly" that there is going to be something done in the carrying out of this contract which is going to be claimed as an expense. If you go to clause (1)—

By Mr. MacNeil:

Q. First of all, the concluding sentence of subsection 5 says, "Ten per cent of such costs as are mentioned in paragraph 4 of this section?—A. Yes.

Q. The immediately preceding paragraph is no. 4?—A. Yes.

Q. So the ten per cent applies to everything in subsection 4?—A. Up to the date of the commencement of the manufacture of the gun.

Q. Yes.—A. That is right. When you come to—

Q. Section 5.—A. When you come to section 5, what do you find? You find a lot of expenses that must be laid out after the signature is put onto this contract. This is the kind of things that we are talking about. But clause 1, the \$20,000 clause, is not within the contemplation of "properly chargeable" under the terms meaning in the carrying out of this contract, but it is something pre-contractual that is brought into the contract by special agreement under clause 1. We say, "By special agreement we undertake to pay you \$20,000 if you can prove by vouchers that the money was expended in engineering and planning expenses leading up to this contract but not properly chargeable," and I quote, "not properly chargeable under the terms of this contract" except for that special agreement. Therefore, all the expenses in (5) do carry 10 per cent, but \$20,000 is not in the generality of (5).

Q. Sub-section 4 says.—A. I do not want to go into it, but those are our thoughts.

Q. Sub-section 4 says, "Up to date of commencement of manufacture of the Bren gun." In sub-section 5 no date is set.—A. That is the point. Therefore, you have to read in, are we contracting for a pre-contractual date? If you lifted the \$20,000 clause out, certainly that would not be properly chargeable in this contract, because you would say to the contractor, "My dear fellow, the contract was not in existence. You cannot say this was properly chargeable under this contract. We have the approval of every expense that you ran into except public expenses in section 5." He recognized that when he was making the contract. This contract means exactly what it says. He said, "I want expenses that were pre-contractual; will you give us some?" We said, "We will give you up to \$20,000 if you can prove them by voucher, but we will not give you 10 per cent on it." The 10 per cent clauses do not relate to the \$20,000. They relate to the expenses in section 5. Now, I do not want to develop that more. That is the thought. That is what we meant. I will admit that all contracts—in fact, I have thumbed them over and I think there are some twenty pages wherein we can get enough double meanings, if you do not like the contract, all right, we will get out of it. All language is subject to dual meaning. I can only say, that the contractor knew by my conversations with him, in our committee meetings the committee knew, and the government officials of the defence department knew, that we wanted to give \$20,000 if it could be proved, and we did not intend to give any percentage on it. If the contract is capable of that meaning, I can only say that the contractor does not think so, and he is not making any claim for it. But that does not say that he will not if he thinks that he can get it. I am not that optimistic. But I say I do not think that the reasonable interpretation is that he would get it, and I do not think we failed in expressing what we thought we wanted to do. If we did, then those who question it on that point are right. If we did not, then I am right.

By Mr. McGeer:

Q. As a matter of fact, this item was very fully discussed by the departmental committee.—A. Oh, yes. I will tell you why it was discussed in the departmental committee. When we saw the contract, it was a specific \$20,000 without any proof at all. We said, "No, you must put in—and the inter-departmental committee did put in—to the extent that you can prove by vouchers that the expense was incurred in an engineering and planning sense." That is the usual thing. You will find it in the English contracts; you will find it in the United States contracts. In fact, the Vineson Act has it right in their provisions and their regulations. It is a real overhead. If you are going to plan and lay out your work, it is an expense in the article that you are going to produce. We recognized that.

By Mr. Brown:

Q. It is practically the first time it has been included in our contracts; in contracts made by the Canadian government, is it not?—A. It is the first time the interdepartmental committee approved such an item.

By Mr. Homuth:

Q. Would it not be more correct to say that this and one or two other contracts are the first contracts of the kind that this government has made, the first cost plus contracts?—A. How far back in history does your question go?

Mr. GREEN: That is hardly a direct answer.

By Mr. Homuth:

Q. I think it would go a long, long way.—A. I would not like to answer too far back.

[Mr. C. Fraser Elliott.]

Q. To your knowledge, Mr. Elliott, what do you say? In fact, I think we were told that by Major Orde?—A. Yes. That is why Mr. Green observed that my question was a little bit short of a direct answer. It was designedly so. I say it is the first time that the interdepartmental committee approved of a pre-contractual expense, to my knowledge.

By Mr. Green:

Q. And the last time too, I guess?—A. Well, that is correct, too.

Mr. McGEER: Well, just a minute about that.

The CHAIRMAN: You started that political speech, Mr. Green.

By Mr. McGeer:

Q. Is not this the first time the interdepartmental committee has had occasion to approve of a contract which involves the production of something that has never been produced before?—A. Oh, I would think technically the answer is "no" to that, because—

Q. What else has there been?—A. The aeroplane is not new, but a new designed and patented aeroplane is something new. The answer is technically "no".

Q. Yes. But here we have a gun which is being produced in England for the first time?—A. Yes.

Q. Which involves setting up a plant and equipment?—A. Yes.

Q. And which involves the setting up of a technical line of production for a special line of equipment, the costs of which are unknown and the general cost of planning is unknown. In your departmental committee all those factors were considered, were they not?—A. In this contract, they certainly were; and that is why we allowed it. That is why we took cognizance of it.

Q. When has the departmental committee, before this contract has been developed, ever set up both plant and the facilities for producing?—A. I think we have had that in contemplation.

Q. The answer you gave to me was that you had new designs on aeroplanes.—A. You see, the aeroplane industry is a developing industry.

Q. Yes?—A. A new design of aeroplane comes along; it takes a lot of planning.

Q. Quite right?—A. But is it new or is it just an aeroplane? Are we going to take the term in the general, in the generic sense, or are we going to take it in its technical development sense?

Q. I understand that in your aeroplane contracts the plants in which the aeroplanes were produced were plants that were set up for that production?—

A. For the production of aeroplanes.

Q. For the production of aeroplanes?—A. Yes.

Q. So that the only variations in the type of aeroplane produced in the contracts that you let were matters of change of design in the aeroplane, and you only built the bodies of aeroplanes here; you did not build the engines?—

A. Oh, no; just the aeroplanes.

Q. Just the aeroplane bodies?—A. Absolutely.

Q. When you were discussing this particular feature of this contract, I understand that you had information before you as to what the cost would be if you set up a plant of your own and had an engineering design for it, and that it would be a very substantial fee?—A. No, I do not think we had that. As an interdepartmental committee, under that order in council, we were charged with examining contracts that were non-competitive.

Q. Yes?—A. We were not a committee to say, "Now, what is the cost of setting up a government special arsenal?" We did not have to go into that. That is a tremendous task. We had to examine contracts that were referred to us.

Q. There is something in the exhibits to that effect?—A. I have no doubt we discussed it. But I would not want to give you the idea that there was an intensive examination as to what it would cost for a government plant.

Q. I have noticed in the exhibits, which I am going to develop later, evidence to the effect that there was information along that line considered.—A. Oh, yes.

Q. And that the amount of \$20,000 was considerably less than would have been the normal charge for that particular service.—A. Yes; alleged by those who were after the contract.

Q. And accepted on investigation by departmental officials?—A. Oh, well, you ask them that.

Q. As a matter of fact, when your interdepartmental committee was considering the question of tenders, the question of the preliminary work that had been done by Hahn was considered as something for which he should be given credit?—A. Oh, absolutely.

Q. And at one stage the suggestion was made in the interdepartmental committee that if tenders were to be called for Hahn should be given the advantage of some \$50,000 to compensate him for his preliminary expenses?—A. Quite right.

Q. And it was in the light of all these things that the maximum of \$20,000 for preliminary planning and investigation was set?—A. Statement correct.

By Mr. McLean:

Q. I should like to know if the committee has ever had to approve or consider the terms of a contract for something that had never before been manufactured on this continent under comparable conditions, as in the case of Bren guns?—A. Comparable to the Bren guns?

Q. No, under comparable conditions of wages, costs, and that kind of thing. The Bren gun was manufactured only in Czecho-Slovakia?—A. Yes.

Q. Under costs not comparable with Canadian costs, and preparations were being made to manufacture it in Britain under again different costs?—A. Yes.

Q. Has anything like that—munitions, aeroplanes, or anything of a similar nature—which had never before been manufactured on this continent under comparable cost conditions had to be considered by the interdepartmental committee or any other committee?—A. No, I do not think so. I think the answer is “no” to that.

By Mr. MacInnis:

Q. Mr. Elliott, I think Mr. McGeer's last question was that the \$20,000 preliminary expenses mentioned in the contract was arrived at by the interdepartmental committee after having gone over all the evidence they had in regard to the work Major Hahn did before the contract was signed. You said, if I caught your answer right, “Quite so.” But was not the \$20,000 in the contract presented to the interdepartmental committee before they went into the matter at all?—A. It was there when it came to us.

Q. Yes.—A. But his development was that in the course of considering the contract mention was made of paying even more, and likewise if there were to be competitive bids the preliminary work that Hahn had done directing the English to Canada and the engineering, planning, skill and negotiations that he had entered upon did move something of value towards Canada, and we did not want to leave him out of that.

Q. Then you decided that if the various items could be charged to the amount of \$20,000, it was allowed?—A. That is right.

Q. It was not in evidence before you because you did not have the evidence except that you knew that Major Hahn had done some work?—A. That is right.

[Mr. C. Fraser Elliott.]

Mr. McGEER: The question I directed was not directed as to what should be allowed to Major Hahn. The question was directed to show that, having in view a great number of factors, it was upon those factors that the committee agreed that a maximum over-riding amount for planning and expenses was \$20,000, which would permit of a payment of whatever could be proven was true or arrived at.

By Mr. Homuth:

Q. When they had the contract put before them at the start this was in the contract and it was after consideration by the departmental committee that you felt it was reasonable and you as a committee then put the \$20,000 in the contract?—A. I am reading from the original contract submitted to the committee by letter from General LaFleche on the 31st of December, 1937:—

The sum of \$20,000 in respect of preliminary expenses, planning and engineering services, carried out by the party of the second part prior to the execution of this agreement.

Are there any more questions on section 5?

By Mr. Green:

Q. On page 5, section 4 (b) (2). Colonel Orde suggested that you would explain about profit-sharing.—A. Yes, I shall be glad to. Mr. Brown raised the kind of question that clause 2 is designed to stop in another direction. Remember, Mr. Brown said we might have an Inglis commercial company and they might buy a tool or a part and then sell it to the Inglis company and, inferentially, at a high price. The same thought comes into customs. We say, "We are not going to pay 10 per cent on customs duty." We agreed upon that. Therefore, if the John Inglis Company said, "Well, we will not pay it ourselves because we do not get 10 per cent of that; we will not import it; we will have this subsidiary company which we own, or three or four of them, buy that as the purchasing company." This subsidiary company will import the article and sell it to the John Inglis Company and in that way the price would include the customs duty and we would have to pay 10 per cent on that. Therefore, for better or worse we said, "That shall not happen"; and we worded the section as follows:—

Customs duties which are paid directly or indirectly by the party of the second part in the performance of this contract or in connection therewith or are paid by parties with whom the party of the second part has in the sense of profit-sharing, contract, arrangement or contact.

So we shall not pay 10 per cent on customs duty. It is just a clause to stop any funny kind of third-party transaction to bring a customs duty as a direct cost to the company when really they could have imported it themselves and paid the customs duty. That is why that was worded that way. Does that answer it, Mr. Green?

By Mr. MacInnis:

Q. Mr. Elliott, before you leave page 5, I am not quite satisfied with the answer you gave to the question in regard to subsection (a) of section 4; that is, that it is not in line with the comment you made in regard to the \$1,307,000.—A. I am sorry; where is that subsection?

Q. On page 5, subsection (a): "The sum of all costs as hereinafter defined, properly incurred in connection with the manufacture of the said Bren gun and spare or component parts thereof."—A. What was the question? I missed it again.

Q. You said earlier this morning that we were not paying 10 per cent on the spare and component parts amounting to \$1,307,000?—A. That is right. We are not, because, though the contractual relationship in words states that we are required to pay it, yet when you go down into the clause in the contract below, clause 5 of section 4, you find a limitation upon the contractual wording of the contract, and it says, "You shall not pay more than "\$267,000."

Q. That is satisfactory to me, Mr. Elliott.—A. Thank you. If we pass from section 5, we come to the financial statement which I submitted. Are there any questions on it?

Mr. GREEN: Mr. Elliott, you were going back to page 1, section (a), the special clause.

The WITNESS: Oh, yes, I forgot that.

Mr. GREEN: Will you explain that?

The WITNESS: You mean the stock-selling prohibition?

By Mr. McGeer:

Q. Would you mind if I interjected, Mr. Green, to clean up clause 1? I asked a question about it but I might be wrong. I am reading part of exhibit 56:—

As a further means of bringing down the cost of the Bren gun, the usual fees for engineering services for the design, planning and installation of the plant and machinery during the preparatory period were eliminated. A reasonable fee for these services agreed to by the war office would have been \$75,000.

Of course that \$75,000 would have included your preliminary work, would it not?—A. After listening to you read it I think that \$75,000 is comparable to the now \$20,000. They are the same item only in different amount.

Q. What I wanted to get was that this item of \$20,000 was not an item that had just been added in?—A. Oh, no.

Q. With indifference to its justice or justification, but that it was the result of a very, very prolonged negotiation which resulted in the fixation of an amount which was not merely well within the reasonable limits but considerably below what would have been a fair amount?—A. Referring to the evidence you have just read, yes.

By Mr. Green:

Q. Does not that \$75,000 refer to the preparatory overhead which is now, as a matter of fact, amounting to \$125,000?—A. Oh, no, I do not think so, Mr. Green.

By Mr. Homuth:

Q. Have you any evidence as to what that \$75,000 that Mr. McGeer referred to included?—A. No. He was reading from the minutes of the third or fourth meeting. It was the fourth and last meeting.

Mr. McGEER: There is considerable other information. I will develop it later on. I think, as I say, it shows very clearly that the \$20,000 was an arbitrary amount which was tentatively accepted by the department and the contractor, and then when it came before the interdepartmental committee they changed that to make it an over-riding limit, and only payable in such amounts as the department would accept. I doubt very much that there is anything in that \$20,000 item, when it is properly viewed.

Mr. MACINNIS: We will investigate that.

Mr. McGEER: If there is anything in it, of course, I mean to say—

[Mr. C. Fraser Elliott.]

Hon. Mr. STIRLING: It is the more curious that when the claim is submitted to this committee it is entirely refused.

Mr. McGEER: And rejected.

Mr. MACINNIS: I do not think it is fair to say that the claim of \$20,000 has been refused. There has been a refusal of the item of \$25,000, which is a different thing altogether.

Mr. McGEER: I think it is fair to say that the reason the rejection was made was on account of the manner of making it. There were several things included in there, such as legal fees, which are not possible under this agreement.

The CHAIRMAN: Just to clarify Mr. MacInnis' statement—I thought I made this clear this morning—the vouchers for the total \$25,171 are here, but the claim made was for \$20,000 which was, I presume, considered the limit they could claim.

Mr. ISNOR: The way I look at this, if you do not mind my expressing an opinion, is from the business standpoint. I have attended this committee day in and day out. You know how it is in business, at the end of each month there is a statement presented to me in the general course of things, and I take that statement and check up the various items and invoices, and if the statement total is not correct I for the time being reject it, writing the firm drawing attention to such and such an item. I think that is what has been done here. They have rejected the claim but it is likely to come back again revised and amended and with certain items struck out. That is the interpretation I put on it.

Mr. McGEER: I do not want to shut off any discussion or investigation about it. There may be something there, but I have given it very careful scrutiny.

The WITNESS: Shall I answer the question about the stock-selling prohibition clause? It is on page 2 of the contract, the second paragraph to section 1. It reads as follows:—

Provided further, that notwithstanding the provisions of anything herein contained, the said licence shall be subject to cancellation if in the course of the period thereof the party of the second part should sell shares, stocks, bonds, debentures, notes or other like securities to the public, directly or indirectly, or through the medium of other companies the proceeds of which are not directly applied to the business of the party of the second part and there remain applicable for use in the carrying on of said party's business, then the licence shall cease unless before the issue of such security instruments the consent to the issue thereof has first been secured from the party of the first part.

Now, before I divide that into its obvious two parts, let me indicate to you that it was apprehended by the members of the committee that once the contract was signed the mere fact that it was guns or munitions, those who are skilled in puffing stocks and raising interest in potential future profits might do something with the stock of this company that had the contract, by transferring it to another company and capitalizing the contract at a great figure and taking shares in the second company and then marketing those shares; it would not be at a high price per share, but in view of the number of them there would be a very large sum of money; and thereby they would anticipate the element of profit through the medium of selling shares. I say that was apprehended. More particularly apprehended because at the same time there was in the original contract a provision that the licence could be assigned and that only bears out my statement that if they wanted to assign the contract and licence to another company they could have done it at a great inflation of stock.

By Mr. O'Neill:

Q. And it was also stipulated "exclusive," was it not?—A. Yes, that was there also in the original contract; so we said, now we will stop that exclusive business, and we will stop the assignment, and we will preclude the selling of stock in the manner described in here.

Q. Was any such clause included in the draft contract submitted to you?—A. No. Now this was at the end of a meeting that did not start at 11 o'clock and adjourn at 1, but it was at the end of a meeting that had started at 3 o'clock in the afternoon. I remember well, and it was after midnight when we again came back to this subject. It was not just suddenly hit. And after much controversy then, some how or other, I was in the position of dictating this clause; and the fact is that the clause which now appears is exactly as I dictated it at this sitting, as I am sitting with you now.

By Mr. Green:

Q. Was Mr. Hahn there?—A. No, this was before he came in.

Q. There was a difference of opinion on the committee as to whether or not the Hahn company should have these rights?—A. Difference of opinion—what? I did not hear.

Q. There was a difference of opinion in the committee apparently as to just what rights the Inglis company should have?—A. No, I don't think so; they were all agreed.

By Mr. MacInnis:

Q. You spoke of a controversy, it was a controversy around this point?—

A. Yes, as to how best to do it, and how extensively it could be done; and the committee discussed it the same as we are doing here to-day.

By Mr. MacDonald:

Q. There was no controversy as to the principle?—A. No. It was agreed that there should be a stopper included. I dictated the clause right there, and then it was a suggestion in a more complete form. Then we determined as a committee it would be enumerated in the contract in a more definite legal form.

By Mr. MacInnis:

Q. Can you explain there just why there was this haste about it?—A. Oh, haste—we were told earlier in the day that we were to settle the terms of this contract, that it was to be a completed contract to be presented to council the next day at 11 o'clock.

Q. Why?—A. There is no reason why. There is the order and we were obeying it as best we could.

By Mr. Green:

Q. Who said there was such a hurry about it?—A. It was not put quite in that way; it was rather a determination or a desire amounting almost to a determination expressed by, I believe, the chairman of the committee.

Q. General LaFleche?—A. General LaFleche; that he had been instructed that this was to be ready for presentation to council the next day. That is the reason why we sat so late, and that is the reason I am told—this is a little hearsay, just to round it out—that General Orde sat the rest of the night over the contract. I am coming back to my point.

Mr. ISNOR: You had been considering this same thought for some time?

By Mr. MacInnis:

Q. Only since January 5, wasn't it?—A. Only since January 5.

[Mr. C. Fraser Elliott.]

By Mr. McGeer:

Q. What was the date of this meeting about which you are talking now?—

A. This was on the 17-18 of March.

By Mr. McGeer:

Q. Which meeting was that, the third or fourth?—A. That was the last meeting.

Q. Didn't you have the information from the War Office then that any further delay would be fatal?—A. Oh, yes.

By Mr. MacNeil:

Q. You also had the information that the department had this in hand since July and August of 1936?—A. We were told at the very opening meeting that in 1936 or 1937, I forgot which, the early part of 1937 perhaps, or 1936, that they had decided that as an instrument of war the Bren gun was the instrument they wanted; and naturally what intervened between that and the time the contract was sent to us was a matter for those who were handling the matter at that time to speak on.

But, coming back to this stopper clause: If you make an analysis of it, we said if the company sells the securities mentioned directly or indirectly then the government will have the right to cancel the contract. Now, I do not think there will be much trouble in agreeing that if the company sold its own shares or if the company increased its capital—

Q. That is, the John Inglis Company?—A. The John Inglis Company—if it increased its capital to get more shares to sell themselves so as to increase their capital that would fall within the terms of the company selling its shares.

Q. And if so the contract would be cancelled?—A. And if that were done without previous consent, then the contract could be cancelled. It would be a breach of contract.

By Mr. Green:

Q. And the shares could be sold through the present shareholders, for example; because then it would not come under the provision here, to the public?—A. Well, I would say, off-hand, all of the Hahn shares were sold to the public, and if one of the Hahn shares of the John Inglis Company were sold to the public merely because they were shares of the company if the company sells under that the responsibility is—I would think there would not be much quarrel. At any rate, that is our view. The obvious deduction is that the man who already holds the shares is the public, and the question is does it control him. Now, point one is, we intended to control. Whether or not we were successful in the wording, I doubt very much. Consequently, is it possible to bind third parties; that is, shareholders in the contract to which they are not signatories or parties; is it possible to bind them by the terms of this contract between the government and the company as shareholders? The answer obviously is no. But the contractor, namely, the John Inglis company can contract; and I put it to you, Mr. Green as a legal proposition, that the two parties can contract in such a manner that if a third party does or refrains from doing a certain thing then, on the happening of that event, our contract comes into a different form.

Q. Yes, but your section does do that; because it does not expressly prohibit shareholders from selling their own stock. There is nothing about that at all.—A. No. The contractor signs the document in which he says, I consent that this document is contingent upon my shareholders not selling their shares.

Q. Where does it say that?—A. In that paragraph; "through the medium of other companies the proceeds of which are not directly applied to the busi-

ness of the party of the second part and there remain applicable for use." Now then, the company sells directly or indirectly its shares through the medium of any other person.

Q. The controlling words are, "party of the second part should sell either directly or indirectly;" well, the shareholder surely cannot be governed by that wording?—A. I admit there is a great deal in what you say. Whether it really binds the shareholder, I am not sure.

By Mr. MacNeil:

Q. During the course of the evidence before Mr. Justice Davis did you not, when you referred to this question, did you not cover as well some 224,000 shares that had been issued?—A. I don't remember. I would like to read that. I don't remember. But I would say now that whatever he asked me is the same kind of a question that you are asking me. I would say if the shareholders held their shares and sold them as individuals it would be very doubtful if it would come under this; but if they were the dominant shareholder such as our friend Hahn I would say that the large liberal construction of the intent in that section would put his contract very much in jeopardy of being cancelled. We would come to the question of the legality of doing it or not. I can't say.

Q. You take a very liberal interpretation?—A. I admit that.

By Mr. Homuth:

Q. This clause provides that they cannot sell unless the money goes directly into the development of the business?—A. That was what was intended.

Q. If they wanted to sell their shares, and if the money did go into the development of the John Inglis company—not the Bren company, but the John Inglis company—then the contract is not subject to cancellation?—A. No, but you would need prior consent; the prior consent of the minister.

Q. Provided they could show the government that they wanted to sell this stock in order to develop their company, whether the commercial end or any other part?—A. Perfectly correct. That is right.

Q. And they would not likely withhold consent?—A. We presumably would discuss that at the time.

Q. It is reasonable that they would not. If that were done, and if they came to sell that stock—do I understand there was a valuation put on it of \$6 a share?

Mr. MACNEIL: It was \$7.50 at first.

The WITNESS: Some sold at \$7.50 I think.

By Mr. Homuth:

Q. But the Securities Commission, I understand, put a value of \$6 on it; isn't that so?—A. I do not know. Whatever I might say on that would be hearsay.

Q. Now, then, that stock could be sold—provided the \$6 went into the treasury—to the general public or anyone else and nothing in this clause could prevent the manipulation of the stock on the stock market?—A. Don't add the last words. Let me explain, before we get to that part, we contemplated that the man might want to expand his business in a legitimate way. Merely because he had a contract with us, even for munitions, we should not say to him: you cannot expand during the currency of the contract. He would have to go to the government and say, now, look, I want to expand for these reasons. And he would have to show reasonable contemplation of business. Surely the crown would say: yes, certainly, we will let you sell the stock. Now, we get to the word "manipulation." If manipulation were the whole idea the crown would say, no, not at all, we won't do that.

[Mr. C. Fraser Elliott.]

Q. I think you misunderstood me.—A. Perhaps.

Q. The stock could be sold at \$6 per share and the money put into the business?—A. That is right; subject to approval also.

Q. And approval would not be withheld certainly, if the money was going into the business?—A. I agree with that.

Q. Then the stock is put on the market?—A. That is right.

Q. In fact, Hahn might say to a friend of his: here, I will sell you 100,000 shares at \$6 a share, \$600,000 which I am turning into the treasury?—A. Yes.

Q. That man would hold the stock and in the meantime the stock could be listed?—A. It could, if they list it; it is up to them.

Q. And we do not know what might happen to it on the market. We have a pretty good idea if someone wanted to sell some what would happen. Then, it would immediately place a much higher market value on the complete stock set-up?—A. I would like to answer your question if you would not think it impertinent. Are you romancing with me, or am I giving evidence?

Q. I think the Inglis company was romancing with the government.—A. Perhaps. Really, I do not want to give evidence on that part, it is so much in the future.

By Mr. McGeer:

Q. As a matter of fact, under the terms of this provision, if it came to the attention of the department that such a plan of manipulating stock as suggested in the last statement was going on, there is no doubt power in that provision to cancel that licence?—A. As to the power, that was intended, and I think it is there.

Mr. GREEN: All that section provides is that the Inglis company must get the consent of the government. Once they have that, that is all that is necessary. What Mr. Homuth means is, once the Inglis company have the consent of the government to issue the stock, then the government has no check on what happens to that issued stock.

The WITNESS: I agree with that.

By Mr. MacNeil:

Q. Was it not drawn to your attention that actually stock had been released in the possession of holding companies and could be marketed in a way over which no control could be exercised under this section? Was not that clear, Mr. Elliott?—A. You have two parts there. Would you mind putting the first part, because I would like to answer that very specifically. Was it brought to our attention that stock had been issued?

Q. Yes.—A. The answer is no.

Q. During the inquiry before Mr. Justice Davis?—A. It was known then, yes; it came out then, as I recollect. The second part of your question is, could the government control that which had been issued? The answer is no, but there is a good deal in there about consent not having been given, if it was company stock issued, which I do not think it was. It was from shareholder to shareholder, was it not?

By Mr. Green:

Q. Has consent been asked for the issue of any shares or securities?—A. You will have to ask the deputy minister that. This is after the events, I do not know.

Q. I wonder if I can get that information?

The CHAIRMAN: I wonder if you will ask that question when we are taking evidence from the deputy minister?

Mr. GREEN: I thought you could get it from the department.

Mr. McGEER: There is just one matter I should like to clear up in connection with the meeting at which the prolonged session took place, getting the contract completed. I am reading now from the report of Colonel Loggie. You remember that report before the committee?

The WITNESS: Yes.

Mr. MACNEIL: Why are you bringing this up?

Mr. McGEER: I am offering that evidence of the need. I am referring to exhibit 224, and reading from paragraph 6: Sir Harold Brown, director of contracts, mentioned to Colonel Loggie, who was liaison officer in London, "that should further delays occur a serious situation would arise in that the Enfield plant would be idle or nearly so, before a Canadian entered production. He thought that unless immediate action was taken by the Canadian authorities the War Office might be obliged to withdraw from participation in the scheme."

Mr. MACNEIL: On a point of order, Mr. Chairman, is this the place to insert this in the evidence? Others of us would like to put in extracts of exhibits in the evidence.

Mr. McGEER: Are there any reasons why you could not put in?

Mr. MACNEIL: We have refrained from doing it because we thought it was padding the record.

Mr. McGEER: It is not padding the record. I am putting this in because it has a definite bearing on this request that the contract be got ready for the next day and for this prolonged meeting.

Mr. MACNEIL: My question is this: is this a proper question to put to the witness on the stand?

Mr. McGEER: I am simply going to ask him if he had this information before him. "He felt that unless immediate action was taken by the Canadian authorities the War Office might be obliged to withdraw from participation in the scheme. I took occasion to ask him that in the event an auxiliary source of supply was established in Great Britain whether tenders would be invited or a suitable firm selected. He said, 'we would select a firm.'"

By Mr. McGeer:

Q. You had that information before you?—A. That is right.

Q. So that there were two features in connection with this thing—

Mr. MACNEIL: I want a ruling. If Mr. McGeer is permitted to do this thing, then I and other members claim the same right.

Mr. McGEER: As I have said before there is no reason why you shall not be entitled to it.

Mr. MACNEIL: All right, we will do that.

By Mr. McGeer:

Q. There were two reasons, the request from the War Office for immediate action, and the other possibility of the War Office withdrawing and establishing a secondary supply place in England?—A. These were two moving forces.

Mr. MACINNIS: Mr. Chairman, no one is questioning the position that the interdepartmental committee was put into, and no one is questioning the means that they took. As a matter of fact, as I said here the other day, there was a gun put to their heads, and they had to deal with the matter on that basis. But we are taking exception to certain actions that transpired from October, 1936, to December 31, 1937.

Mr. McLEAN: I do not think it is fair to say there was a gun put to the head of anyone. One of the influences that required a decision to be made was that a long time had elapsed and the article was urgently required.

[Mr. C. Fraser Elliott.]

Mr. MACNEIL: Urgently required when, December, 1936, when the department received a further report from Major Hahn? The delay was due to a deliberate attempt to make a set-up for Major Hahn.

Mr. McGEER: That, of course, is not in line with the evidence. That may be your interpretation of the evidence, but the position you are forced into, from the evidence, is that you cannot believe the report of Colonel Loggie which put up to this department the immediate desire of the war department. When you come to this other question of whether pressure was brought to bear to make a set-up for Major Hahn I think that possibly a great number of people, reading the evidence fairly, will be able to conclude that Major Hahn through a good sense of business and a sound sense of patriotism was able to—

Mr. MACNEIL: Leave the patriotism aside—

Mr. McGEER: —was able to go to England and bring—

Mr. MACINNIS: A profit of \$267,000 is not patriotism.

Mr. McGEER: There are a great many workmen working in the plant that has been set up who would not have any work in Canada if he had not done his job.

Mr. MACINNIS: They would. There were many other companies doing business as well as Hahn's.

Mr. GREEN: Let us stop this right now, Mr. Chairman.

The CHAIRMAN: It is five minutes after one. We have had two or three requests, and it might be better to meet on Thursday instead of Tuesday. I understand Thursday suits some of the members of the committee. Mr. Elliott will find it difficult to be on hand on Tuesday. A lot of the members are going away and have suggested that we adjourn this meeting until Thursday at 11 o'clock.

The committee adjourned at 1.05 p.m. to meet again on Thursday, April 13, at 11 a.m.

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Canada Public Account, Standing Committee

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

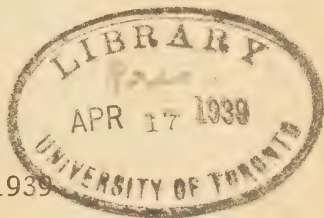
MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN AND OTHER ARMAMENT CONTRACTS

No. 7

Thursday, April 13, 1939



WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, April 13, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Anderson, Beaubien, Bercovitch, Blanchette, Douglas (*Weyburn*), Fleming, Francoeur, Fraser, Golding, Goulet, Homuth, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McLean (*Melfort*), McPhee, Marshall, Rickard, Stewart, Stirling, Taylor (*Norfolk*), Tremblay, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue.

Complying with instructions given by the Committee at previous meetings, the clerk tabled the following documents:—

1. List of machines purchased by the Government for installation in the plant of the John Inglis Co. Limited, showing cost and country of manufacture.
2. Letter, dated April 12, 1939, from the Deputy Minister, Department of National Defence, containing information as to consent asked for the issue of shares and securities under the second paragraph of section 1 of the Bren machine gun contract.

At the suggestion of the Chairman, and after discussion:

Ordered,—That the clerk prepare a statement showing the total cost of machinery, purchased for installation in the Inglis plant, manufactured in (a) Canada, (b) Great Britain, (c) the United States and (d) other non-British countries; and that this information be incorporated in the record of the next meeting of the Committee.

Mr. McLean moved,—That the record of to-day's proceeding be not printed up to the point where the witness gives evidence.

After discussion, and by leave of the Committee, motion withdrawn.

Examination of Mr. Elliott was continued.

The Committee adjourned until Tuesday, April 18, at 11 o'clock a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

April 13, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order we shall proceed. Before calling on the witness this morning I should like to bring to the attention of the committee the fact that we have a list of the machinery purchased and the countries of origin. This information was asked for by Mr. Homuth, and on discussing it with him this morning we have agreed to block the items divided between the different countries of origin and to table the total amounts. That is satisfactory to the questioner and I presume it is satisfactory to the rest of the committee.

Mr. MACNEIL: Will that be published as an appendix to the proceedings?

The CHAIRMAN: We cannot very well do that until it is broken down.

Mr. MACNEIL: When it is broken down?

The CHAIRMAN: Yes. We shall have it broken down and brought in at the next meeting to be published.

Mr. GOLDING: What has that to do with the contract?

The CHAIRMAN: In answer to the hon. member's question I presume the member for South Waterloo was anxious to ascertain the amount of money that was paid by the two governments for equipment installed in the plant for the production of these guns, and to ascertain what proportion of the equipment came from Canada and what proportion came from England, and what proportion from the Empire countries and from the United States. I presume that was the purpose of the question. By handling it in this way we will have it on the record.

Mr. GOLDING: I can understand the purpose of it but I do not know what purpose is going to be served if you print it and stick in on to the evidence.

Mr. HOMUTH: Great minds do not all run in the same direction. You and I may have different ideas.

Mr. MCPHEE: I again express the same opinion as Mr. Golding. I cannot see the object of this evidence at all as far as this contract is concerned. I expressed myself the day the question was asked.

Mr. GOLDING: What good purpose is going to be served by going to the expense of tacking that on to one of these daily reports?

The CHAIRMAN: The questioner has agreed to bulk the purchases of the different countries of origin and the amounts.

Mr. HOMUTH: There will be three lines in the report.

The CHAIRMAN: Frankly, I must confess, notwithstanding what has been said by the members of the committee, it seems to me to be the right of any member or members of the committee to procure that information. It is part of the contract.

Mr. HOMUTH: The whole idea is this: this government is equipping a plant for the making of munitions. They are paying for the machinery under the contract, and I think it is important to know how much good Canadian money is going to other countries for the purchase of machinery that should not have gone.

Mr. WOOD: Why do you say "should not have gone?"

Mr. HOMUTH: Because the machinery could have been purchased in this country.

Mr. MCPHEE: There is the very object of this information. Political capital can be made of the fact that the government have bought this machinery not in Canada or the Empire when possibly the machinery could have been bought in Canada or the Empire.

Mr. HOMUTH: Possibly.

Mr. MCPHEE: I object now to the matter being tabled at all or dealt with until we get the proper witnesses on the stand who can answer the question; because if this statement is put in now the interjection of Mr. Homuth will go to the country that the government bought machinery outside of Canada that could have been bought in Canada or the Empire.

The CHAIRMAN: I think the only comment that can be made on the discussion of the last few minutes is this: the hon. member for South Waterloo may have eliminated from his statement the purchase of machinery in the United States or some other country that could have been bought in Canada.

Mr. HOMUTH: I would not have made the statement if there had not been objections taken to putting this in. Objections were not taken to the question, but now this information has come down objection is taken. If the Liberal members of the committee want to vote that it shall not go into the record, I do not care. I dare them to do that.

Mr. McLEAN: I think Mr. Homuth has a perfect right to ask for the information that he has requested. I think he has a perfect right, when it is compiled, to have it answered in the form of three lines, as he says. I am not saying this on account of what has happened to-day, but I say it because I made the complaint before. I do not believe we should spend money printing the talk we have around the table. It is not evidence and is not of importance to the country. It does not reflect any credit upon any of us. It is a waste of time. I think Mr. Homuth has a right to ask for that if he wishes the information. We all ask for much information. We all ask for information that may not be of value to other members, but we may think it is of value to ourselves, and we have a right to ask for it. It does help us to decide the wisdom or otherwise of purchases that have been made if we know where they were made and then later on find out that they may have been procured far more advantageously some place else. We have a right to go into that, but I suggest, Mr. Chairman, very seriously, that we do not go to the expense of printing this, but keep the record straight and do our work as economically as possible.

The CHAIRMAN: The hon. member for Melfort rather places the chairman in an impossible position, because I do not know how we are going to decide what evidence or statements should be put in the record and what statements should be eliminated. The minute we start leaving something out of the record, or doing something of that kind, we are going to be in trouble, in my humble opinion, because somebody is going to say "this should not be in" and somebody else is going to object to that.

Mr. McGEER: I think the situation is now that a new charge has been made. A charge has been made that should be investigated. The charge that is now made definitely and is on the record, is that the Department of National Defence in co-operation with the John Inglis Company under the direction of Major Hahn have deliberately gone out and spent money, let us say, whether it has been spent in the United States or not, that should have been spent in Canada. Now, when a member of parliament makes a charge against the Department of National Defence that it has deliberately expended Canadian funds in a foreign country for the purchase of material or equipment to produce Canadian armaments or British armaments, then it seems to me that is a

charge that has to be faced and dealt with, because if that charge is true there is no reason why the public should not know it. But in the light of the charge that has been made this morning, it seems to me clear that the proper time for the production of this statement is when those responsible for the purchase of the machinery and equipment are here to answer the charge.

Mr. GOLDING: Quite right.

Some Hon. MEMBERS: Hear, hear!

Mr. McGEER: As I look over the record it was made clear to the Department of National Defence and the British War Office that much of the machinery required to put this plant into operation would have to be purchased outside of Canada.

Mr. HOMUTH: Where do you find that in the record?

Mr. McGEER: I will show it to you. I think those who are responsible for the purchase of this equipment should be given every opportunity to meet that charge, and I think that the charge should be fully investigated; but I do not think, Mr. Chairman, the proper time for the presentation of this type of evidence is now; I think the proper time is when the men responsible for it are before the committee, and not when we are in the course of the examination of the contract. Of course, I think the charge is rather far-fetched.

Mr. HOMUTH: Of course you would.

Mr. McGEER: I have a good deal of faith in the Department of National Defence, and I do not think they would be guilty of a thing like that.

Mr. HOMUTH: Mr. Chairman, this information was asked for some weeks ago.

Mr. MacNEIL: It was a routine request.

Mr. HOMUTH: And the secretary and those responsible for producing it have produced it. Had the committee said at that time, no, we will not produce it, that would have been all right; but the committee passed the resolution. This information should be given to the committee. This morning you asked me if I wanted it on the record as it is. I said no, bulk it. It will mean three items in the record, or three lines in the record. That was decided upon. You suggested to the committee that that was agreed upon between us, and would the committee be satisfied, because we were. Then the debate started all over again. The members of the committee talk about wasting time. The whole debate this morning is a waste of time because they object to something that we decided to have weeks ago.

Mr. MacNEIL: Purely a routine matter.

Mr. GOLDING: What I asked was what good purpose was going to be served by printing this, and I have a right to ask that, surely. Where are we going? What we were appointed here for was to scrutinize this contract to ascertain whether the contract was bad or whether it was good. Where are we wandering now when we start into something else? If we do that, there will be no end to it.

Mr. BERCOVITCH: There is this to be said. I presume the members who are responsible for bringing this committee into creation, so to speak, found that their position was bad when they came to put before the committee facts concerning the Bren gun contract. That being so, they are trying to fall back on to another line and say, well, very well, you gave your contracts for the purchase of machinery to foreign countries, consequently the government of this country has spent Canadian money outside of Canada that should not have been done. That is an altogether different charge.

Mr. MacNEIL: May I remind the committee that it was at the insistence of Mr. McGeer and Mr. Bercovitch that we decided to examine the contract, and the manner in which the contract was executed. It was said it would be

advisable to ascertain whether or not it was a good contract. Mr. Homuth's suggestion is merely one of the many routine requests submitted to you and handled in an amicable fashion. In order to make the record intelligent the members must call attention to the facts relevant to that. It is not a fishing expedition. We have not yet proceeded to examine the most important feature of our inquiry, the method of negotiation leading up to this contract.

Mr. McGEER: Mr. Chairman, we may as well be clear on that. We have examined the method of negotiation.

Mr. MacNEIL: Not yet.

Mr. McGEER: Through a member of the interdepartmental committee who sat and reviewed every feature of the negotiation. We have done nothing so far to examine that. Now, there is no objection to this material going on the record; but it is suggested that it should go on the record—

Mr. MCPHEE: In the regular way.

Mr. McGEER: —at the time the men charged with this further act of improper conduct—and I do not think it can be less than that in the way it is put—are here to explain it.

Now, if the members of the committee want to be fair surely they will say that having made the charge against the men responsible for the purchase of this machinery the evidence in regard to it should be presented when they are here to be examined and not at some other time.

Now, as regards the matter of the contract being examined at our request, that was a matter which was discussed in the sub-committee and in the committee as a whole. We decided to examine the plant and examine the contract. We have proceeded to do that. When we get through with Mr. Elliott I presume we will examine the men who are responsible for the negotiations and the purchase of the machinery, but why put this on the record when these men are not here to face the charge?

Hon. Mr. STEWART: I have listened with a great deal of interest to what Mr. McGeer has just said and also to what Mr. Bercovitch has said. Now, are we not confusing two things right here, first the placing on the record of certain information this committee has asked for and to which we are entitled, and the dealing with some charge or statement made as to what has been done in connection with the information? They are two separate matters altogether. The information should go on the record as it is presented in the regular way, I submit, and at a later date, if you wish to follow up any suggestion that the purchases have not been according to the order in council, then that can be dealt with. For the present it seems to me there is no question whatever that this information should go on the record, and the other matter should be left to be dealt with if and when it is thought advisable to do so.

Now, Mr. Bercovitch perhaps is new to committees of this kind—

Mr. McGEER: Mr. Bercovitch has been in the game as long as you have.

Hon. Mr. STEWART: Mr. Bercovitch has not been here as long as I have, nor you.

Mr. McGEER: I do not believe we have learned anything.

Hon. Mr. STEWART: I do not think we should question motives and say we are fishing. This matter was referred to the committee. The government said they were going to refer it and made a motion to refer it. Mr. Golding says we are here to investigate the contract. That is all right. There is no restriction whatever in the order of reference. We are not asked to deal with any particular phase of it. That is what is referred, everything in connection with this contract. I just go back to the point that I wish to make, that we are dealing with two things: first, the placing of the information in that statement on the record, and subsequently deciding what action should be taken on it.

The CHAIRMAN: Everybody has had an opportunity to express his opinion regarding the matter that I discussed with the hon. member for South Waterloo as requested. He acquiesced in the suggestion I made, and I feel we should go ahead and block these figures as I suggested in the beginning and have them ready for the next meeting, and let the further figures go on the record from the witnesses who will follow, the Deputy Minister of National Defence and Major Hahn, who will be here to answer the questions that the committee may direct to them on the details of the statement.

An Hon. MEMBER: When will they be here?

The CHAIRMAN: When we are ready to ask them to come. The detailed statement will be available to every member of the committee and the witnesses will be here to answer questions. I think that is quite clear.

Mr. MACNEIL: It will save time all the way.

The CHAIRMAN: Since we have started out this morning with a political squabble and concluded it, we will now proceed with the witness. The country is put to considerable expense in having this illustrious witness here every morning to help the committee.

Mr. McLEAN: Before the witness is called I am going to move a motion to the effect that the statement be not printed in the record until the witness concerned gives evidence.

Mr. McGEER: I do not believe we can agree to that to-day, Mr. Chairman, because after all there has been another charge made that is now printed in the record.

The CHAIRMAN: Gentlemen, you have heard the suggestion of a motion by the hon. member for Melfort. As I said a moment ago, certainly the chair is not going to accept the responsibility, and the feeling of the chair is that if we start doing that, with all due respect to the hon. member, there will be no place to stop.

Hon. Mr. STEWART: We will be misunderstood.

The CHAIRMAN: As the hon. member for Leeds says, we will be misunderstood in connection with it. It would probably be much more to the point—I am not suggesting this because everybody knows that I am strictly non-political—to keep the record confined as much as possible, if we eliminated political speeches and unnecessary discussion, by doing as the hon. member suggests.

Mr. MCPHEE: I suggest we change our procedure. Each morning we come here we have had discussions over these returns that are brought in by the chairman. This return was prepared by some official in the department who naturally will be before this committee to give evidence. I submit the proper person to give information is the witness himself. If you eliminate these returns that are being brought in at each session of the committee, you will avoid the discussion that has taken place.

Hon. Mr. STEWART: That is a remarkable suggestion coming from a lawyer.

Mr. MCPHEE: In a court that is exactly what would happen.

Hon. Mr. STEWART: No. When you go to a court you have your pleadings and record, and you know what you are going to ask. Time would be saved if these returns are placed on the table. The members would have access to them and know what they are, and then when you come to ask your questions you condense them much more than you could if you see the return for the first time when you ask the question. I believe the bringing of them in here and placing them on the table and giving access to them to the members enables us to decide what line of inquiry we want to deal with, and it would save time instead of wasting it.

Mr. McGEER: I quite agree with my friend from Leeds. I think we should appreciate that we are here because the government in the first instance,

when the first charge was made in McLean's magazine by Colonel Drew, directed a complete investigation. Apparently, notwithstanding the very complete finding exonerating all members of parliament and the senate—

Mr. MacNEIL: Of corruption.

Mr. Homuth: Now, —

Mr. McGEER: Just a minute.

Mr. MacNEIL: If you are going to start in arguing—

Mr. Homuth: All right, then we will have the opportunity.

Mr. McGEER: You can go as far as you like. You people are taking a good many privileges here which we are perfectly willing you should take—

Mr. MacNEIL: You are setting an example.

Mr. McGEER: That is all right. As I said, notwithstanding the finding of the commissioner of complete exoneration of anything savouring of corruption or even suspicion of corruption—

Hon. Mr. STEWART: Who suggested corruption?

Mr. McGEER: The charge was made in McLean's magazine.

Mr. MacNEIL: No.

Mr. McGEER: The charge was not formulated in McLean's magazine; it was made by innuendo which was infinitely wider—

Hon. Mr. STEWART: No.

Mr. McGEER: In the argument of Colonel Drew before the commission. He charged everything from perjury to pernicious patronage and corruption.

Mr. MacNEIL: Not at all.

Mr. McGEER: I read the evidence, and I read it in the House of Commons; I put it on the record and it is there for everyone to see. Now, here we are faced again this morning with another specific charge made on the presentation of information. My learned friend as a lawyer knows perfectly well that anything like that in a court of law would be treated as contempt. It is true we have our examination for discovery; true we are supposed to be informed on all facts essential to the proper presentation of a case in court; but we are not supposed to comment upon these facts as to what the court should decide before the court has heard the evidence. The objection to presentation of material of this kind before the witnesses responsible for the direct charge are here to be heard, is that in a committee of this kind advantage is taken of the opportunity to declare conclusions that should not be declared until this committee has heard the evidence of the witnesses and is prepared to make its own finding. When a member of this committee stands up and says that the reason he wants this evidence is that the Department of National Defence has bought machinery outside of Canada that should be bought here or that could have been purchased within the Empire, we will say, it becomes clear that there is a real necessity for waiting for the consideration of the evidence until the men charged can answer it. It seems to me beyond argument. I feel the government are just as anxious as the opposition to have this matter fully investigated. After the inquiry of the commission was completed it came before the house, and we are now sitting in a further investigation which is, as the hon. member for Leeds says, wide open. We have wide powers of investigation, and I for one see no reason why any single fact that any member of this committee desires to have should not be placed on the record.

Mr. McPHEE: In the regular way.

Mr. McGEER: But I do think that in fairness to the members of the Department of National Defence—

Mr. BERCOVITCH: And the public.

Mr. McGEER: —and in fairness to the contractor and in fairness to the British War Office, that kind of material should go in without comment until such facts as were alleged here to-day have been established on some form of evidence. As I say, as a member of this committee I believe we on the government side would be acting contrary to the wish and the will of the government if we interfered in the least with the presentation of any facts pertinent to this inquiry; and I quite agree these facts are pertinent; but I do think that they should go in and be dealt with when the men who are responsible for them are here. I know the difficulty of men in a position of public service. It is very easy to make charges against officials and the government; but with all deference to those who are making these charges, I venture to say we have as fine a group of men in our Department of National Defence as can be found in the employment of any government in the world. I believe the members of the committee should at least be fair to them no matter what their desire to destroy the government of the day may be—and of course we do not blame them there.

Mr. HOMUTH: They destroy themselves.

Mr. McGEER: I want to say to my friend that he is not the only Conservative that has had great optimism before elections, to find disillusionment when the people go to the polls, and that may happen again, so don't be too cocksure about where the people stand, you know.

Mr. HOMUTH: Mr. Chairman, we have listened to a very nice political speech from the member for Vancouver-Burrard. When the information was asked for, I repeat, this committee was willing to have it presented. This morning the chairman of this committee asked me if I was willing to have it grouped into three different headings. I agreed to that. The chairman suggested it to the committee. Then I was asked why this information should be brought down, or what it had to do with the contract. I said I wanted the information. I answered the question as to why I wanted the information.

Mr. GOLDING: Who asked you why you wanted it brought down?

Mr. HOMUTH: You did.

Mr. GOLDING: No. I said, what good purpose was going to be served by putting it on the record. I did not ask you anything at all.

Mr. HOMUTH: You asked with regard to the information and I answered the question. This whole debate has taken place simply because the information was produced. I say it is not relevant to the thing at all, because the chairman of the committee and I agreed as to how the evidence should be brought in. The whole debate came in on that.

The CHAIRMAN: Let us see if we can agree on this.

Mr. MACNEIL: Mr. McGeer set an example that the rest of us feel compelled to follow. Mr. McGeer in his speech suggested conclusions not justified at all. In the first place there was no charge of corruption made. I have read the evidence that was given before the commission and Colonel Drew made it clear he was not alleging personal corruption. In any event, those of us responsible for the motion of reference stated clearly we accepted the findings of the commission. We agreed that there was no suggestion of personal corruption. There is no suggestion of personal corruption now. To put the matter clearly, I would remind the committee again that this matter was referred to the committee because the commissioner himself set out five points that parliament would be required to decide on the evidence before it. It is our responsibility to deal with the five or six specific points which he set out here and which he was not in a position—

Mr. McGEER: What are these five points? Have you got them down there?

Mr. MacNEIL: I will put them on the record again. I have already done so. One was: whether the Bren gun should have been produced in publicly owned factories or through private manufacture (page 10 of the report): (2) whether the conduct of the individuals concerned was above question (page 35 of the report): eliminating all question of corruption, were all the facts correctly reported to the department and by departmental officials to the government? Was any pressure exercised upon the department to set aside consideration of the public interests? (3) Whether adequate reasons existed for the failure of the interdepartmental committee to report back to the government when the system of supervision of contracts broke down. Those are the words of the commissioner. It is found on page 41 of the report.

To what extent did this committee supervise negotiations, which led to any commitments—prior to the execution of the contract? When were the draft proposals referred to their committee?

(4) Whether the procedure followed in negotiating the contract protected the public interest (page 49 of the report). Should the department have called for competitive bids?

(5) Whether proper steps were taken to ensure proper discharge of the responsibility assumed in the selection of one particular contractor? Was it possible for the department to consider other firms in Canada for this purpose, and if so, were steps taken to this end?

(6) Was the pressure exercised upon the British War Office of a nature to prejudice Canadian interests, or in conformity with government policy?

(7) Were proper precautions taken to curb excessive profits on production or in stock jobbing based on the award of the contracts?

Those are the reasons why it was referred to this committee and are proper subjects of this inquiry; and not on any one of those points were the officials exonerated.

Mr. McGEER: I do not know that there is any suggestion of the fact that there was exoneration required, because if what you are suggesting is correct—

Mr. MacNEIL: It is in the commissioner's report.

Mr. DOUGLAS: The commissioner suggested that.

Mr. McGEER: No. Just hold yourself. You are too anxious to get to the slaughter and you are moving too fast. What the commissioner said was that, in regard to all parts involved in this contract, there was no ground for even a suspicion of anything corrupt.

Mr. MacNEIL: We accept that.

Mr. McGEER: Then in the face of that finding you repeat charges that these men have not acted to perfect the public interest.

Mr. MacNEIL: Mr. Chairman, I am quoting from the commissioner's report. I am not making charges.

Mr. McGEER: No, you are not quoting from the commissioner's report. What you are doing is taking the report and laying your interpretation on it, which is a very different thing. The point that we are discussing is not the political speech which you have just made, but is whether or not the time to print a report of facts is when the officials are here to meet it; and that now, in the face of the facts that these officials have been specifically charged with actions of deliberate misconduct, in that they have bought elsewhere outside of Canada with Canadian public funds things that they could

have bought in this dominion. Surely we can confine ourselves to that one point; and the issue is: should we print that on the record in the light of the charge made now or should it come in when the men charged are here to defend themselves? If we were trying to keep anything out of the record, it would be a very different thing. But no member on the government side of this committee is either trying or desiring to keep any facts off the record. No opposition has had more privileges in an investigation than has been allowed in this particular investigation.

Mr. HOMUTH: It is not allowable; it is our right.

Mr. McGEER: You have not had any right infringed. But you are trying to extend rights into privileges of condemnation and abuse of departmental officials.

Mr. HOMUTH: No. Wait a minute.

Mr. McGEER: That is what you are doing here. What I say is for any responsible member of a committee of this kind to deliberately charge men with a statement of that kind before they are here to defend themselves is going beyond, in my opinion, what is the proper duty of members of this committee. If they are guilty of that kind of thing, and you believe they are, who not wait for the evidence? Then when the evidence is there, complete your condemnation. But this thing of prejudging departmental officials is neither sound nor wise nor fair, nor, in my opinion, good committee practice.

Mr. DOUGLAS: If we are going to listen to a lot of political speeches every day, there will not be any evidence.

Mr. McGEER: Well, you have not set any great example.

Mr. DOUGLAS: I have not said a word this morning.

Hon. Mr. STEWART: My friend Mr. McGeer time and time again has endeavoured to throw this finding that there is no corruption on the part of any member of the House of Commons as a white veil over this whole thing.

Mr. HOMUTH: And also wave the flag a little.

Hon. Mr. STEWART: He throws it out as if that was a complete answer to everything that is being questioned here. It is perfectly clear that that has been accepted and there is no charge of that kind. I think we are wasting time by bringing it up again and again and endeavouring to cover up everything else with it. The charge of corruption is one thing; and a charge of inefficiency, or misconduct or irregularity is another thing altogether.

Mr. HOMUTH: Or stupidity.

Hon. Mr. STEWART: Well, there might be other things too. But for Mr. McGeer to assert again and again that, because there is a finding of no corruption, it is an answer to all these other complaints is something which I do not think he ought to do. I do not think it is relevant at all.

Mr. McGEER: All I want to say is that I have never done that.

Hon. Mr. STEWART: You just did it a moment ago, in my opinion.

Mr. McGEER: You are looking at this thing through strangely coloured glasses, and it is affecting your hearing.

Hon. Mr. STEWART: I can always hear you. I can always see you too, and where you are going.

The CHAIRMAN: Gentlemen, may I proceed? There are two points before the committee at the present time. I have felt that it was the responsibility of the chair, when information was requested by any member of this committee, to see that we should immediately procure the information.

Mr. DOUGLAS: Hear, hear.

The CHAIRMAN: And lay that information on the table so that it is available.

Hon. Mr. STEWART: Right.

The CHAIRMAN: If it is the pleasure of the committee and it considered the proper policy to procure the information and withhold the information until the witness who can answer the questions in connection with that information is on the stand, that is another question, or another policy. What does the committee want to do? I have felt that if we delayed in any way in getting the information, it would be a reflection upon the chair or upon the secretary of the committee. I assure you, as far as the secretary and myself are concerned, we will follow whatever procedure or whatever wish is indicated by the majority of the committee.

Mr. MacNEIL: Hear, hear.

The CHAIRMAN: If you want this information retained until General Lafleche or until Major Hahn or somebody is on the stand, all right, we will do that. Can we decide that question and decide it unanimously?

Mr. HOMUTH: I was quite willing to have the figures bulked and put on the record in that way. But if there is going to be a protest here, I am going to move that the whole detail be put on the record.

The CHAIRMAN: May I say, gentlemen, that until some better reason than has been brought forward this morning or a more important reason is placed before the committee, we will continue the policy that we have followed. We will procure the information, make it available and put it on the record at the time we consider it should go on the record.

Some Hon. MEMBERS: Certainly.

The CHAIRMAN: The second point is this. It has been moved by Mr. McLean that the record of to-day be not printed until—

Mr. McPHEE: He does not press that.

The CHAIRMAN: Do you withdraw that?

Mr. McLEAN: I am going to ask you to put the motion, if there is a seconder now or if there is a seconder available. I want to protest against this waste of money that we have here. I have sat in many committees. Some members have spoken on the length of time they have served on committees. I have sat on a good many committees, and I might say that many of the most important committees of this house do not print their proceedings at all. Objection has been taken in the house, time and time again, to spending too much money on printing. I am only going to say a few words more, because I do not want them to be printed at a large expense. We have been engaged for an hour here in a very interesting conversation between ourselves, but no evidence has been heard. Why should we spend money in spreading this over the country? I cannot see any good reason for it. There are many other committees that do not print their proceedings. I think we should take the same attitude when evidence is not being given. My friends across the table and myself have had a very interesting conversation, but there is no reason why it should be printed. I should like my motion to stand.

Mr. McPHEE: Let it stand until next day.

Mr. McGEER: I am quite agreed in the matter of economy; but, after all, no subject for a great many years has been a matter of such real and vital concern to the people of Canada as the matter which this committee is investigating; and certainly the proceedings before this committee are of real interest to the public. There seems to be a growing tendency among members of parliament that this great institution of free argument and discussion, which is the basis of our whole scheme of democracy, should in some way be curtailed or done away with. I am not in favour of that, because I think that the minute we start curtailing our open and free discussion we are going to move to the type of thing that is challenging democracy all over the world. It may be

unfortunate, but with all good things you have to take the bitter with the sweet. Water is very nice unless you fall into a river; and then it is not so happy a situation unless you can get to shore. Parliamentary debate is sometimes something that engulfs people and drowns them in their own expressions. But nevertheless, that is probably one of the good things of open discussion. This idea of Scotch penurious economy is something that I believe we are suffering from in this country more than anything else; and with all due respect to my friend Mr. McLean's desire to save pennies by curtailing the publication of the views of the parliamentarians who have been selected by the House of Commons to discuss this thing, in which I am vain enough to think the people are somewhat interested, I believe that his suggestion that that should be deleted from the record, Mr. Chairman, is a type of "Scotchism" that I think had better be left in Scotland and not brought to Canada.

Mr. McLEAN: Mr. Chairman, I object. I think Mr. McGeer's remarks are entirely out of order. No evidence has been adduced; there has been nothing but conversation and cross-conversation around the table so far. Mr. McGeer knows in his heart the virtue of—and he practices it himself—the thing that he is condemning. In making the suggestion as to what should be done, I have not asked that a single thing be left off the record. I have not asked that a single word be retracted. I have asked that no more money of this country be squandered in printing something that might be interesting to those who want to start rows, but which is not of the slightest interest to those who want to see the business of this country conducted with dignity, with decorum and with speed. Mr. McGeer, in his own private business, in his own personal business and in his own public business, would not think of doing the same that he says should be done in the public interest and the thing he says should have been left behind in Scotland, the penuriousness of which he speaks.

Hon. Mr. STEWART: He does not mean that.

Mr. McLEAN: Of course he does not mean it. He practices it himself, and every other wise man practices it—that is, reasonable economy. He knows and you know the thing this country is suffering from; it has to do with the thing we are here to investigate to-day, as to whether or not this principle of proper economy in government has been observed or has not been observed. I am willing to have all the evidence printed; I would be the strongest objector to the suggestion that the evidence be not printed. But of what interest would this conversation be except to those who seek to destroy the government or democratic institutions.

Mr. MacNEIL: Do not start anything.

Mr. McLEAN: Or except to to those who would seek to belittle democratic and parliamentary institutions? What interest has it to anybody else to print these private proceedings between members themselves on the record, especially at the cost it would entail? The cost would be such that I hesitate to mention it, because I know it would be very large.

Mr. McPHEE: As of proven Scottish descent, through three generations in this country, may I say that I think Mr. McLean has served his purpose by raising the objection he has raised. I do not think he should press for a vote, especially to-day when we have not a very large number of the committee here. I think, from now on, acting on the suggestion that Mr. McLean has made, long discussions will be fairly well eliminated.

The CHAIRMAN: Gentlemen, I might suggest that the immediately preceding chapter be called the chapter on Scotland. We have a motion.

Mr. McGEER: With reference to that, I should like to clear up one or two points for the member for Melfort. I should be inclined to agree with him if it had not been for the member for Waterloo making this charge which I

think is one of the most important features of our record to-day, because it is a charge that never was laid before the commission and it is entirely a new matter. I, as one member of the committee on the government side, think that should be dealt with most fully; and I think that is, in itself, a matter that could not possibly be eliminated from the record without the suggestion being made, and I think another charge being made, that although a responsible member of the committee had, on facts which he had before him, made a charge of this nature, we had refused to print it. I think that my friend from Melfort is overlooking the importance of that suggestion or he would never suggest that that portion of the record of the committee's proceedings should be eliminated. I, for one, would certainly vote against the idea of deleting matters of such importance as that from the record.

The CHAIRMAN: Gentlemen, there is only one way to settle this. I shall read the motion and take a vote.

Mr. DOUGLAS: Is it seconded ?

The CHAIRMAN: It does not need to be seconded.

Mr. MCPHEE: Let it stand.

Mr. GOLDING: Nobody seconded it.

The CHAIRMAN: You do not need to have it seconded.

Mr. BERCOVITCH: Let it stand.

Mr. McGEER: For consideration at the next sitting.

The CHAIRMAN: Do you want to withdraw it?

Mr. McLEAN: I understood it was carried unanimously that the motion stand.

The CHAIRMAN: That the motion stand? Why not clean it up?

Mr. McLEAN: I thought you would.

The CHAIRMAN: All right, gentlemen. This is the motion.

Mr. McLEAN: Let me say that I did not understand that Mr. Homuth made a charge. He spoke with a little heat, the same as some others did, in my opinion.

Mr. HOMUTH: It is just a mental condition.

Mr. McLEAN: Quite.

Mr. HOMUTH: I probably should state that.

Mr. McLEAN: I think it was a routine matter for Mr. Homuth to request that information.

Mr. McGEER: Does Mr. Homuth say there is no charge?

Mr. HOMUTH: Do you want to put me in the witness box?

Mr. McGEER: No. You say my mental condition does not permit me to hear you correctly.

Mr. HOMUTH: I would not say it is your glasses.

Mr. McGEER: What I understood the statement to be—and I think that members of the committee will bear me out—was that the Department of National Defence, supervising the expenditure of money for machinery, had purchased machinery abroad that could have been purchased in Canada or within the Empire. If I am wrong about that, I should like to know it now.

Mr. HOMUTH: The record is there. Whatever I said is on the record.

The CHAIRMAN: Gentlemen, I am going to read the motion of the hon. member for Melfort which is before the committee. It is that the record of to-day be not printed until the time when the witness gives evidence. All in favour of that motion kindly stand.

Mr. ANDERSON: Just a minute, Mr. Chairman. This statement was asked for. It has been brought down. It is just the same as an action in court. All parties are entitled to that document and to have full knowledge of it. I have not got that knowledge, and I am entitled to it.

Mr. McLEAN: Hear, hear.

Mr. ANDERSON: I can get it in two ways. One is by having it part and parcel of the record, and the other is through a true copy handed to me. I do not know of any reason why members of parliament should not have that knowledge. I do not know, although I happen to be a member of this committee, why I should be privileged. I think it is information that every member of the house should have, if he wants it. He is perfectly entitled to follow this evidence, the same as every member of this committee, notwithstanding that he is not a member. I think it should be printed in full, with all due respect to my friend Mr. McLean. In the past I have always found him very reasonable.

Mr. McLEAN: In reply to Mr. Anderson, may I say that I have not suggested that the report should be changed in any way, shape or form from what the chairman suggested, except that the discussion around the table, which is not evidence, be not printed.

Mr. MacINNIS: Before you put the motion, Mr. Chairman, I say that I think the motion is out of order. We decided at the opening of this investigation that the proceedings of the committee would be printed. Conversation that takes place prior to a witness going on the stand to give his evidence is part of the proceedings of this committee.

Mr. McGEER: Authorized by parliament.

Mr. MacINNIS: And authorized by parliament. We cannot, at any time, or at any stage in the proceedings have someone get up and make a motion that this part of the proceedings be not published and that part be published. We shall either have to have the whole of the proceedings published or none at all; and we have decided already that the whole of the proceedings should be published.

The CHAIRMAN: I quite agree with the hon. member, and that was the intimation I made from the chair two or three times this morning.

Mr. MacINNIS: I was not in the committee then.

The CHAIRMAN: Notwithstanding the truth of what you say, in order to have everybody satisfied, I though if we accepted the motion and put the motion to a vote we would clean it up for all time, and nobody would have any comeback one way or another.

Mr. DOUGLAS: I move that the question be now put.

Mr. McGEER: A point of order has been raised, and that point of order is well taken, I think; because, after all, as Mr. Anderson said, committees are not privileged. Members of the House of Commons are entitled to know what we are doing in this committee; and when they authorized the printing of the record, I do not think this committee has any power to overrule the authority of parliament, which is a confirmation of the decision of the committee. I agree with my friend Mr. MacInnis that the motion is out of order. It is not a motion that should be put to the committee at all.

Mr. DOUGLAS: Sixty per cent of the time this morning has gone. I do not know whether Mr. McGeer does not want us to get to the evidence or not. We have been constantly hearing the making of speeches when we could just as easily have a vote. I move that the question be put.

Mr. McGEER: You cannot have a motion put when a point of order has been raised.

Mr. BERCOVITCH: I suggest that the chairman take it under advisement.

The CHAIRMAN: This motion has taken considerable time. Personally, from the chair, I am back where I was in the beginning, when it was suggested that part of the evidence or part of the discussion should be deleted from the record.

Mr. McLEAN: I have sat on a good many committees of this house for a good many years, and I have never seen a committee yet to which it has not been suggested that certain things be left out of the printed record, and they were immediately left out. It is certainly going far, whatever other excuses may be used for voting against the motion, to not print this conversation which is entirely extraneous, to rule it out of order, and I do not want you to do so. When a motion is made as I made this one, I submit that the proper method by which to deal with it is to submit it to the committee and let them turn it down; because unquestionably it is in order, and is carried out in every committee.

Mr. ANDERSON: Just in pursuance of what has been said by Mr. McLean, may I say that I rather think that to state that this motion is out of order is pretty harsh. I think the motion is quite in order. I think it should be voted on or withdrawn, one or the other. I am against the motion, as I said before; but I do not think Mr. McLean is moving something that is out of order in this committee. I have found him very reasonable in the past. If he would be good enough to withdraw it and accede to the suggestion, I would say to him he has done a good service in having it debated.

Mr. McLEAN: In order to save time, and in response to Mr. Anderson's very kind statement, I withdraw the motion, with your permission, Mr. Chairman.

The CHAIRMAN: It has been withdrawn. I might just mention to you that our authority is "leave to print," not "obligation to print."

Mr. McLEAN: Quite.

The CHAIRMAN: I wanted to correct myself as well as you on that point.

Mr. ANDERSON: What are we going to do with it now?

Mr. McGEER: It is withdrawn.

Mr. ANDERSON: Are we going to print in full?

The CHAIRMAN: Sure.

Mr. ANDERSON: All right.

The CHAIRMAN: Before we proceed with the witness, I will answer another question. I hope we do not start a discussion on this one. The question was if consent has been asked for the issue of any shares or securities under the second paragraph of section 1 of the contract.

Mr. McPHEE: Has the return been given to this?

The CHAIRMAN: I am making another return.

Mr. McPHEE: Mr. Chairman, I submit in all fairness that the witness who is capable of giving that should be here.

The CHAIRMAN: This is a very concise and definite question.

Mr. MACNEIL: It is a matter of fact.

The CHAIRMAN: It is a conclusive answer. The answer is "no." So we have that settled.

Mr. McLEAN: From whom is the answer?

The CHAIRMAN: From the deputy minister.

Now we shall proceed with Mr. Elliott.

Mr. C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, recalled.

By the Chairman:

Q. Will you please proceed, Mr. Elliott?—A. Yes. Mr. Chairman, on the last occasion we were discussing the financial divisions of the contract, and we had covered the first part and the second part—they are in the record—and we had entered upon the third part and were discussing the phases of the third part. The third part was dealing with the special clauses contained in the contract that touched upon financial considerations. The first one was stock selling clauses prohibiting the company from the sale of its stock and is included in section 1. I think we had exhausted that, although I am not sure; but I am taking it that we had, unless somebody raises further points. The next clause is the standard cost clause.

By Mr. Bercovitch:

Q. What is the number of that clause?—A. That is section 6 (a) in the contract.

By Mr. MacNeil:

Q. Before you pass from the stock selling prohibition, may I ask if you are prepared to answer questions or would you rather return to it later?—A. No. I think we should exhaust it, if it is agreeable to you. Let us go back.

Q. I was reading your evidence on that point at the close of the last day's sitting. Is it fair to state that you feel now that this clause does not absolutely prohibit stock jobbing by hidden holding companies?—A. No. I think that would be going too far, to make it so concrete. Let me state as concisely as I can in summary form what I think my evidence conveyed. The prohibitory provision contained in the second paragraph of section 1 falls into two parts, very important parts. I am very clear that if the company increases its stock or sells its own stock, in any manner whatsoever, the company, meaning the John Inglis Company—if it increases its capital in any way and sells stock without the permission of the minister of defence—I think that is the name; without the consent of the party of the first part—then I think there is clearly a breach of the contract. The second part of that clause relates to those who already are in possession of stock of the company, having been in possession of it before this contract was entered into. The intention was, so far as it was possible, to bind third parties that were not signatories to this contract, to insert in that clause a condition that the contractor, the John Inglis Company, would bind itself that if third parties holding its stock did sell that stock, then upon that event, there also would be breach of this contract. I put it to Mr. Green, who was here at the time, as a legal proposition: Can two parties contract one with the other, so that if the third party who is not a signatory to the contract immediately under consideration, does something or refrains from doing something, then upon the happening of such event, the relation between the two contracting parties changes? That, I believe, is a perfectly good kind of contract between two parties, depending upon the action of a third party. So I conclude my second phase of analysis of that clause by stating that it was intended to go as far as contractual relations would permit. But whether the wording in itself is ample to do it is, I think, open to doubt and that, I think, you have caught from my evidence the last time when you asked me if I were doubtful as to the efficacy of this clause. On the first phase, no; on the second phase, I would say it is doubtful, but if the contractor has a good contract I imagine he stands in great jeopardy by the action of third parties over whom he may have no control.

By Hon. Mr. Stewart:

Q. May I ask Mr. Elliott one question on that stage? What are the provisions of the contract in that contingency? Suppose those third parties did sell the stock and that a breach of the contract as outlined by you, Mr. Elliott, took place? What are the remedies of the government as to the contract itself? We leave out the legal aspect for the time being. There would be a remedy for damages, but what within the four corners of the contract are the rights of the government?—A. I think you have answered that yourself. Any contract that has a breach, any contract that is broken has first a remedy of damages, if not liquidated in the terms of the contract itself, which has to be measured by the court upon the evidence that comes before it. I do not now recollect any penalty specially imposed on the contractor within the terms of the contract itself.

Q. Nor do you find in the contract any provision for cancellation or termination of the contract for a breach such as you have mentioned?—A. Oh, yes, there is a much broader—

Q. That is what I am asking.—A. Oh, yes; I thought you were going to the measure of damages more than the breach. I thought you premised your remark with the words that there was a breach, and then you say, what would be the damages. I will answer both questions. The damages are not liquidated, but in the terms of the contract that would be a matter of evidence as to how much damage we had suffered, and that would be measured by the court. Your second question was: is there any cancellation clause? The answer is yes. First of all, the contract could be cancelled whether there is a breach or not and the measure of the payments on that are set out in sections 17 and 18.

Q. Is there any provision for cancellation on the breach that you have mentioned specifically?—A. A breach in itself?

Q. Yes.—A. A breach in itself might amount to a cancellation; I think it generally does, although there are exceptions to that. But a breach of a contract can be generally regarded as a cancellation of the contract. It gives the party the right to be indemnified for breach of the contract, and to continue or to cancel the contract; but we are getting into the realm of law, and please do not quote me.

Q. I do not want to get into the realm of law at all; I want to get within the four corners of the contract. I want to find out what the rights of the government are and what the provisions are specifically if there is a breach.—A. Cancellation, I would say.

Q. They have cancellation apart from that altogether?—A. Quite so; it could be cancelled in other directions.

MR. BERTRAND: As long as there is cancellation, if there is no breach at all, it covers it.

HON. MR. STEWART: I do not think it says "breach."

MR. BERTRAND: It is wider than that.

By Mr. MacNeil:

Q. The intention of the department to curb profiteering on stock was not declared specifically in the draft contract referred to the interdepartmental committee?—A. Oh, no, this is a brand new clause.

Q. This was put in solely at the instance of your committee?—A. Precisely.

Q. I should like to ask what information your committee had. Did you have any accurate information, for instance, as to the financial status of Major Hahn and his associates?—A. We had the financial statements that were submitted by the—in a letter from Major Hahn to the sub-committee, and the financial statements from Dun & Bradstreet. That is all we had, I believe.

[Mr. C. Fraser Elliott.]

By Mr. McGeer:

Q. You had a letter from the Bank of Montreal?—A. From the Bank of Montreal.

Q. I believe we should have on the record now all the information you received from the Bank of Montreal as to the financial capacity of this company and the statement of Dun & Bradstreet which your committee acted upon.—A. They are already before the Davis commission; perhaps we can refer to it.

Q. That should be before this committee.—A. We might refer to it either by exhibit number or—

Q. I think it should be put on the record.—A. Whichever you like.

Q. Because they were reports to your committee.—A. Oh, correct.

By Mr. MacNeil:

Q. I submitted my question to you. My question was this: this particular clause in the contract was placed in there by the interdepartmental committee to curb profiteering in stock jobbing?

Mr. McGEER: Your specific question was, what information did you have before you as to the financial status of this company. I think we should have that on the record, because it has not been clear. It comes before this committee now. It is found in exhibit 52.

Mr. MACNEIL: Let the witness give the evidence.

Mr. ANDERSON: Is that a letter from a chartered bank?

Mr. McGEER: It is a letter of the Department of National Defence to Mr. Elliott as a member of the interdepartmental committee enclosing a copy of a letter from the Bank of Montreal.

Mr. ANDERSON: With regard to Major Hahn?

Mr. McGEER: With regard to the John Inglis Company, also a letter—

The WITNESS: Major Hahn's letter, if I may interrupt, was dated 1st March, 1938, and then there was a letter from the manager of the Bank of Montreal dated 2nd March, 1938. They are both quoted in exhibit 56 before the Davis commission.

Mr. MACNEIL: Would it not be better to ask Mr. Elliott what judgment he formed as a result of the perusal of these documents?

Mr. McGEER: Wait until we get the documents. I have exhibit 52. It is a letter to Mr. Elliott from Charles Burns for L. R. LaFleche, chairman of the committee, and it reads—

Mr. MACNEIL: Could we not get the evidence from the witness?

Mr. McGEER: No. Please permit me as a member of the committee to present facts, which I think I know how to present.

Mr. MACNEIL: Well, ask the question.

Mr. McGEER: I am asking the witness if he received this letter. He has referred to exhibit 52. I am asking the witness if he received this letter which is addressed to him.

Mr. MACINNIS: On a point of order, I am not finding fault at the moment, but I think you should try as far as possible when any member of the committee begins to ask a series of questions, to allow him to complete his questions with as little interruption as possible. Possibly Mr. McGeer is not the only one who is able to present information and evidence.

Mr. McGEER: I am not complaining about that at all. He asked for this information. Now, I insist that the question be properly answered.

Mr. DOUGLAS: Does not Mr. McGeer think that the witness is quite capable of answering it properly? I think we have had Mr. McGeer as a witness for the last five sessions.

Mr. McGEER: That is absolutely unfair.

Mr. DOUGLAS: I think the witness should be allowed to answer the questions as asked by Mr. MacNeil. Mr. MacNeil asked a very definite question. His question was, what provision had been made to prevent profiteering in stock jobbing. Immediately we are thrown into a reading of letters into the evidence. I think we should get the evidence from the witness.

Mr. McGEER: You will hear the witness. He has referred to exhibit 52. I had exhibit 52.

By Mr. McGeer:

Q. What I want to know is, did you receive that letter?—A. Yes.

Q. It is a letter dated January 31, which is a very different date from exhibit 56, which is March something, is it not?—A. Exhibit 56 is March 14.

Q. Yes. What I am suggesting to you is that as the letter is dated January 31, as a member of the interdepartmental committee you had this information—A. I observed—

Q. It is important for this committee to find out whether this information was before the interdepartmental committee early in their proceedings or practically at the end of them. I mean, if this information did not come until the contract was practically closed, I think it is a matter of criticism; but if, as I say, there is evidence that it was before them on January 31, then I think it is a matter that is of importance to the committee, and I certainly feel like objecting to members saying that keeping the record clear of that kind of information is done with an ulterior motive or done with a view to obstructing the work of the committee. I believe that is grossly unfair.—A. Let me endeavour to—

Mr. BERCOVITCH: Is that in the record?

The WITNESS: Let me endeavour to keep the record straight so that those who read may follow. Exhibit 52, which is a letter dated 31st January, addressed to me, in the last paragraph states:—

For your confidential information, I am enclosing herewith a copy of both the letters from the manager of the Bank of Montreal and of the report of Dun & Bradstreet.

In the opening paragraph of that letter reference is made to two things, the letter of the Bank of Montreal manager and Dun & Bradstreet's report. That exhausts exhibit 52.

Now, exhibit 56 is a report to the members of the interdepartmental committee dated 14th March, and it refers by way of quoting from information taken from Major Hahn's letter, dated 1st March, 1938, and a letter dated 6th March, 1938, from the manager of the Bank of Montreal. The new thought is the two letters, the two that I just referred to, were the Bank of Montreal letter and that of Dun & Bradstreet. Now, Hahn's letter comes in and is quoted in exhibit 56.

By Mr. McGeer:

Q. What I want to get clear on the record, Mr. Elliott, is that you as a member of the interdepartmental committee received from the Department of National Defence on January 31, 1938, a letter enclosing a copy of a letter dated January 26, from the Bank of Montreal to General LaFleche and signed by H. F. Skey, manager. Is that correct?—A. Yes.

Q. That letter reads as follows:—

Our early conversation this morning with Mr. William T. West, comptroller of the John Inglis Company, Limited, and at his request I enclose a copy of Dun & Bradstreet, mercantile agency report upon the John Inglis Company Limited.

[Mr. C. Fraser Elliott.]

It might be interesting to you to know, in connection with the plans for the contract which Major J. E. Hahn is interested in, that this matter was discussed with us in Toronto during the fall of 1936 and later in December of that year he proceeded to Montreal and had an interview with our head office for the purpose of outlining arrangements for the financing of the purchase of machinery which would be required in regard to the plan for the manufacture of a certain weapon for the Canadian government. Subsequently it developed in the negotiations that this financing for the machinery was not necessary and since that time, to our knowledge, that portion of the plant which would be required for this work has been kept available. Furthermore, in view of the apparent imminence of the conclusion of these negotiations, the company has postponed from month to month any large scale operations, pending the decision which has been constantly expected.

I might add further that the new personnel of the John Inglis Company, Limited, is of high standing and well known to us as customers over many years. They have had a broad and successful experience in mass production of precision equipment. Major Hahn, who is the principal figure behind this enterprise, is held in high regard by us and we have been closely associated with him in his business over a period of many years. He is a man of integrity, very energetic, and singularly capable in his technical, executive and organizing ability and highly regarded generally.

In conclusion, I might say that for personal and banking purposes I assured myself some time ago, and recently, of the financial position of Major Hahn, as well as the standing of his associates. My finding is that they are possessed of substantial means and in my opinion sufficiently so to undertake such a contract as that for which they are negotiating.

I am, yours very truly,

H. F. SKEY,
Manager.

By Mr. MacInnis:

Q. Just to keep the record straight, may I ask Mr. Elliott when was the financial status of Major Hahn for the first time before the interdepartmental committee?—A. I think the enclosure of this letter would be the first time. That was Dun & Bradstreet's report and this letter. I am not just sure of my time, it may have been later or about that time. We asked for a statement from Major Hahn of his capacity in the business, and he told us, and that is in exhibit 56, and that is the answer to your question, on March 1, 1938.

By Mr. McPhee:

Q. Have we Dun & Bradstreet's report?—A. Yes, it is in the enclosure, the second enclosure.

Q. Will that be on the record?

By Mr. MacInnis:

Q. When that letter that Mr. McGeer read was forwarded to you, it was forwarded to you by General LaFleche, as I understand, with a phrase in his letter "for your confidential information"?—A. Yes.

Q. Was that to you personally, or to the interdepartmental committee?—A. Oh, I think that went to the interdepartmental committee, but I stand subject to correction on that. Generally speaking, all letters that came to one went to all the rest. This may have been an exception, but I do not think so.

By Mr. MacNeil:

Q. Did you enquire into the financial status of Major Hahn and his associates?—A. We enquired into that, not specifically, but in general, yes.

By Mr. Bertrand:

Q. In your capacity as Commissioner of Income Tax, if there was one man who knew anything about Major Hahn's financial capacity, it was you, was it not?—A. Oh, I think there are many men more well informed than I am. Modesty compels me to say that.

Q. You are compelled to be informed?

Mr. MCPHEE: May we have Dun & Bradstreet's report?

By Mr. MacNeil:

Q. As a member of the interdepartmental committee, did you question the financial standing of Major Hahn because of the knowledge that you had personally as income tax commissioner?—A. As income tax commissioner I knew the former history of the John Inglis Company. I had looked at its financial affairs, as a matter of fact, and I think I so stated on the stand.

Q. Was there any question in your mind as to their stability?—A. No. The John Inglis Company old was an entirely different organization in my mind from the John Inglis Company new. It had ceased its operations and I realized that a new control had taken hold, and that it was a new venture.

Q. Did you not also have information in regard to Major Hahn's previous business activities?—A. I knew Major Hahn, yes, and I knew some of his previous business activities.

Mr. DOUGLAS: That he had gone bankrupt.

Mr. McGEER: That is the kind of thing I dislike. The member from Weyburn has said that Major Hahn had gone bankrupt.

Mr. DOUGLAS: No; I was merely asking if it was true that he had previously gone bankrupt.

Mr. McGEER: Ask the question openly.

Mr. DOUGLAS: I was suggesting to Mr. MacNeil that he ask the question if Major Hahn had gone bankrupt.

Mr. McGEER: You made the remark.

Mr. DOUGLAS: I was making the remark to the witness.

Mr. McGEER: You made the remark that Major Hahn had gone bankrupt.

Mr. DOUGLAS: I asked Mr. MacNeil to ask if it was true that he had gone bankrupt. Has the witness any information as to whether or not Major Hahn was in any previous business enterprise that had failed or gone bankrupt?

The WITNESS: You see, you put your question in two ways. Has Major Hahn gone bankrupt, and has he been connected with any other business proposition that went bankrupt? These are two questions. As to Major Hahn going bankrupt, to my knowledge he never has. He may have been beyond my knowledge but I rather think he never went bankrupt. Your other question was, was he connected with any companies that went bankrupt? I know that the companies with which he was associated had certain financial difficulties, and I think there was an amalgamation; whether it amounted to bankruptcy or not, I think definitely the answer would be no.

By Mr. Bertrand:

Q. What company?—A. There was an amalgamation and an agreement whereby some people may have taken less than their equities would otherwise entitle them to. I do not know—I think it was an arrangement between various companies.

[Mr. C. Fraser Elliott.]

By Mr. Douglas:

Q. What companies were they?—A. I think the DeForest Crosley Company, a radio manufacturer, and the other one was Rogers Majestic.

Q. Does the witness know what the loss of the shareholders was?—A. No, I do not remember. I did know at the time, but I do not remember now.

Q. It is not on the record, anyway?—A. No.

Q. It could be secured?—A. I would not say.

Mr. BERCOVITCH: It has nothing to do with this at all. We have enough to do with the Bren gun contract.

Mr. McGEER: Now that we have got that over, what I, for one, think is this: During the period of 1931 to 1933, a great many of the financial concerns all over the country and all over the world were compelled to make a compromise with their creditors.

Mr. MACNEIL: Can you not ask a question of the witness?

Mr. McGEER: To suggest that because a man was in charge of a company that was a victim of that world-wide condition, he is to be pilloried—

Mr. MACINNIS: There is no one being pilloried.

Mr. McGEER: Or to have it suggested that he is unworthy of respect because of that—

Mr. MACINNIS: No one is pillorying him.

Mr. McGEER: That is nothing but persecution.

By Mr. McGeer:

Q. What I want to ask is this: Can you conceive, in all your business experience, of a higher recommendation as to business ability, personal integrity and financial capacity than the letter written by the Bank of Montreal to the Department of National Defence which was forwarded to you?

Mr. ANDERSON: Before you answer that question, I should just like to say, with all respect to my friend, that I think it is unfair to this witness.

Mr. MCPHEE: No.

Mr. ANDERSON: It is a matter of argument. All this witness can say is what was presented to them. It is for us to interpret it afterwards and to argue it. It is not for my hon. friend to ask this witness whether it is fair or whether it is not fair. We will decide that. We are the jury.

Mr. McGEER: All right, if you want to take that position.

By Mr. McGeer:

Q. You received this information from the Bank of Montreal, did you not?—A. That is right.

Q. It is stated herein: "I might add further that the new personnel of the John Inglis Company Limited is of high standing and well known to us as customers over many years." That was a statement from the Bank of Montreal that you were dealing with a company the personnel of which was of high standing, well known to the Bank of Montreal. That is correct, is it not?—A. That statement was in the letter of January 26.

Q. Continuing: "They have had a broad and successful experience in mass production of precision equipment."

Mr. ANDERSON: Of course, Mr. Chairman, if you allow those things to go in like that, you are simply allowing him to build up his argument now—something which should come after all the evidence is in. What we should have is exactly what was presented to them.

Mr. MCPHEE: That is exactly it.

Mr. ANDERSON: It is for us to argue as to whether that was sufficient for the purpose of this question.

Mr. McGEER: And for the purpose that every member of this committee may know what it is.

Mr. ANDERSON: Yes; but do not colour it.

Mr. McGEER: I am not colouring it. I am reading the facts and not saying a word about it. I know that it is distasteful, but let me go on.

By Mr. McGeer:

Q. This further information was contained in that letter: "Major Hahn, who is the principal figure behind this enterprise, is held in high regard by us and we have been closely associated with him in his business over a period of many years." That is true, is it not?—A. That is also in the same letter.

Q. "He is a man of integrity, very energetic and singularly capable in his technical, executive and organizing ability, and highly regarded generally." That is true, is it not?—A. That is in the same letter.

Q. Is there anybody better able to speak of the financial qualifications of these people than the Bank of Montreal which had been dealing with them for many years, in your opinion?—A. Well, that is a matter of opinion, of course; my opinion, therefore, has to be modified according to what the members or those who read might themselves think of it. But, generally speaking, I would be surprised if any bank of good standing, having reputable officers and men of experience—I do not know Mr. Skey's experience, but being with that bank—generally speaking, to have that bank or others write that kind of a letter would give me confidence in the man with whom I was about to deal.

Q. The point I want to make is this: Would any member of a committee charged with supervising a contract between the government and a corporation be warranted in accepting that type of information as proof of the capacity of the personnel of the corporation?—A. Naturally, a letter of that type, coming from the head office of the Bank of Montreal would, I repeat, instill great confidence in those who had to do business with anyone in respect of whom the bank was writing:

Q. Because in addition to Mr. H. F. Skey, who is the manager of the Montreal branch, you have in that letter that Major Hahn had dealt with the headquarters of the Bank of Montreal with reference to this whole proposition, have you not?—A. Well, that letter is from, I observe, the Bank of Montreal; I should say the head office, I believe, in Toronto.

Q. Yes, but you will notice— —A. Of course, the head office, we all know, is in Montreal. Do not let us go astray on that.

Q. In the early part of the letter he said this: "It might be interesting to you to know that in connection with the plans for the contract which Major J. E. Hahn is interested in, that this matter was discussed with us in Toronto during the Fall of 1936 and later in December of that year he proceeded to Montreal and had an interview with our head office...."—A. That is right. That is in there also.

Q. Now we come to the other feature of the letter; "In conclusion, I might say that for personal and banking purposes I assured myself sometime ago, and recently, of the financial position of Major Hahn, as well as the standing of his associates. My finding is that they are possessed of substantial means and in my opinion sufficiently so to undertake such a contract as that for which they are negotiating." In the opinion of the Bank of Montreal, according to that letter, both the personnel and the financial power of this group controlling the John Inglis Company were put in a very high category, were they not?—A. There is no doubt of that; that is what the letter states.

[Mr. C. Fraser Elliott.]

Mr. ANDERSON: Are you putting in that letter so that it will be on the record?

Mr. MACNEIL: It is in now.

The WITNESS: It has been fully read.

Mr. McGEER: I read that into the record, Mr. Anderson.

Mr. ANDERSON: All right.

Mr. McGEER: I think you will agree with this—

Mr. ANDERSON: Your comments are interesting. But at the same time I want to have it on the record.

Mr. McGEER: I think you will agree with me that one of the charges the committee is investigating is that this was an irresponsible and incompetent group of men without financial resources. I mean, that is one of the charges that Colonel Drew specifically made, and it has since been reiterated in that group of papers that has been associated with Colonel Drew in this extraordinary attack. Are we to conclude that this information is not worthy of detailed consideration? Certainly if it were the other way, I am sure my friend would want every detail of it on the record.

Mr. MACNEIL: If Mr. McGeer is through, may we continue?

Mr. McGEER: Just before I finish, might I ask to have the letter of Dun & Bradstreet also included in the record? That is the letter attached to exhibit 52 along with the letter of the Bank of Montreal. I do not think we need to read that, because it is just confirmation, outside of pointing out to the members of the committee that at the end of that report there is included this statement: "This enterprise now has its affairs simplified, in strong hands, who have ample financial backing. The principal one at interest is Major Hahn, a native of Ontario who, after he returned from overseas, organized the DeForest Crosley Company Limited, which was afterwards sold to Rogers Majestic Corporation. Is well to do and capable." That is from Dun & Bradstreet?—A. That is correct.

Q. Statements of that kind made by a responsible credit investigating agency like Dun & Bradstreet are worthy of acceptance, are they not?—A. They are worthy of great weight; there is no doubt of that.

Mr. DOUGLAS: I should like to ask a question.

Mr. McGEER: May I put in exhibit 56 and that letter I spoke of?

Mr. MCPHEE: Is Dun & Bradstreet's statement going in?

Mr. McGEER: Yes, and exhibit 56. I do not seem to have that.

The WITNESS: I was on the stand before the Davis Commission and I wrote on the side "exhibit 56." There is a remote possibility that they might have given it another number, but I do not think so.

Letter of Dun & Bradstreet referred to is as follows:—

DUN & BRADSTREET

The Mercantile Agency.

INGLIS JOHN CO. LTD.

Engineer & Mnfrs. Steel Equipment

Toronto, Ont.,

14 Strachan Ave.

MAJOR JAS. E. HAHN, President,

Wm. T. West, Comptroller,

CD B 37 34 Jany. 13, 1938.

HISTORY

This company had its inception in Guelph, Ont., in 1860, when the late John Inglis commenced the business; they moved to Toronto in 1889 and were known as John Inglis & Sons. In 1889 Wm. S. B. Inglis

purchased the control and the company was incorporated as John Inglis Company, Ltd.

The company from its inception, did a large and successful business, becoming one of the largest manufacturers of turbines, boilers and special steel fabricators in Canada.

Beginning with 1929 and 1930 volume fell off materially and the company had difficult times.

In 1935 Wm. S. Inglis died and shortly afterwards Campbell Reeves, a former member of the firm and a holder of quite a block of bonds, took the management.

Volume of business did not increase and April, 1936, the Premier Trust Co., Toronto, were appointed interim receivers. Finally the bondholders took control of the fixed assets, while the bank took possession of the stock and accounts.

In the fall of 1936 the plant and assets were purchased from the bondholders by a new group headed by Major James E. Hahn and a charter was obtained under Ontario Laws, as British Canadian Engineering Ltd., November, 1936, with authorized capital \$250,000, in shares of \$1; subsequently the par was changed to \$6. Since then the plant has been completely overhauled and a certain amount of work done for old customers.

In June, 1937, the charter was amended, changing the name to John Inglis Co., Ltd.

Major Hahn has associated with him a number of responsible people, whose names for the time being are not divulged.

STATEMENTS

Their balance sheet as of December 31, 1937, shows as follows:—

ASSETS

Cash..\$ 99,970 00
Accounts Receivable.. . . .	20,000 00
Inventory.. . . .	9,500 00
Land, Buildings, Machinery and Equipment.. . . .	1,280,530 00
	<u>\$1,410,000 00</u>

LIABILITIES

Accounts Payable..\$ 10,000 00
6 per cent 5-year Mortgage Bonds.. . . .	150,000 00
Capital Stock—Authorized 250,000 shares par value each \$6. Issued, 220,000 shares. Net amount received on the issue of the above stock.. . . .	1,250,000 00
	<u>\$1,410,000 00</u>

The five-year mortgage bonds \$150,000 were given to Campbell Reeves who was the principal bondholder of the previous company.

This enterprise now has its affairs simplified, in strong hands, who have ample financial backing.

The principal one at interest is Major Hahn, a native of Ontario who, after he returned from overseas, organized the Deforest Crossley Co. Ltd. which was afterwards sold to Rogers Majestic Corporation. Is well to do and capable.

1-13-38. 5.

N.Q.

By Mr. Douglas:

Q. While Mr. McGeer is looking for that, I should like to ask a question merely to sum the whole thing up. As a result of these findings which have been referred to by Mr. McGeer, the interdepartmental committee were perfectly satisfied with the financial condition of this company. Is that what we are to take from the statement?—A. It would be wrong to answer that “yes.” Certainly we were concerned, and we gathered the evidence that has been referred to and other evidence. But the committee realized this asset in the Inglis almost possession; that asset was the English contract.

Q. Did they have it at that time?—A. Oh, yes. It was before the committee, and not only before the committee but it was before it in this rather dramatic way, that if we had any idea of getting competitive bids and incurring the delay that was commensurate with that action, the British cable read that the delay would be fatal to our interest. Now, there was an intangible asset, if I might call it that, in the balance sheet of the John Inglis Company. There was this contractual relationship which they themselves had exclusively, as the interdepartmental committee was told. If we did not deal with that company we could find no commensurate asset in any other company in Canada. That asset, if we closed the deal as a matter between the John Inglis Company and Canada, was worth in cash about \$509,000 or one-third of the capital machinery and the tools, dies and jigs. I think that is \$509,000. It was also worth the saving per unit in the production of guns, which was estimated by those expert in it at \$800,000. In other words, there was a total—intangible at the moment, it is true, but nevertheless real if we signed the contract—of \$1,300,000. We could find no other company, due to the situation, that would offer us such a financial advantage. So, therefore, I say I could not answer your question specifically by saying “yes, we were perfectly satisfied.” I had to give that explanation. I say we were, under all the circumstances, satisfied that we should go into the contract.

Q. Before I go on, I should like to ask one question here. The reason I ask this question is that I notice, in reading the minutes of the interdepartmental committee, that some of the members, particularly Dr. Clark, the deputy minister of finance, demurred considerably.—A. Oh, yes.

Q. The witness may care to go into that later when we are dealing with the interdepartmental committee rather than the financial set-up.—A. Yes, I think it would be better to leave it until later.

Q. I think there should be some explanation of why the person who probably was best qualified to speak on the financial set-up as it related to the contract demurred on so important a decision.

Mr. McLEAN: On a point of order, may I say that that should not be asked of the witness.

Mr. DOUGLAS: That is perfectly right. Mr. Elliott gave evidence on this very point.

Mr. McGEER: I think we are getting away from the point.

By Mr. MacNeil:

Q. Before we pass away from exhibit 52—we are on exhibit 52; you have it before you. That is Dun & Bradstreet's report?—A. Yes.

Q. On page 2 of that you find their balance sheet as of December 31, 1937, which shows cash, \$99,970; accounts receivable, \$20,000; inventory, \$9,500; land, buildings, machinery and equipment, \$1,280,530, making a total of \$1,410,000. Then on the other side, under liabilities, we find accounts payable, \$10,000; 6 per cent 5-year mortgage bonds, \$150,000; capital stock, authorized 250,000 shares par value each \$6; issued 220,000 shares; net amount received on the issue of the above stock, \$1,250,000. Now, is it correct to assume that their total cash investment up to that time was only \$99,970?—A. On the face of that balance sheet, that is what it states.

Q. Did you not make an analysis of the balance sheet at the time?—

A. Yes. We asked Major Hahn to give us a statement of his actual cash investment in the business, and he did give us a statement; and he told us that the actual cash that they had put in—and it is in his letter—was \$160,465; and that they had definitely contractually committed themselves for further additional cash of \$189,535.

Q. They had also already issued 220,000 shares on the strength of the contract secured?—A. Oh, I would not say that. You see, these shares that you mention were in the first company that he had at \$1 a share. Later they were written up to \$6 a share, and that brings it to 220,000 shares at the figure stated here, \$1,250,000. I do not say that the write-up was occasioned by the contract. I certainly would not say that. But that write-up from \$1 to \$6 is the way this balance sheet is set up, and we took no notice of that. The land, buildings, machinery and equipment at \$1,280,000, we wrote down, as you know, to \$288,000.

Q. Was that on the basis of an appraisal made in 1929 when the John Inglis Company was in full operation?—A. I think substantially that is correct, but I would have to refer again to the evidence of the old company. That is the old company again you are speaking of. I should help you there by stating that that value referred to is the old company; that 1929 value is the old John Inglis Company. Do not let us confuse it with the new one.

Q. I put it to you this way: with these statements before you, with knowledge that the cash invested up to that time was only \$99,000, that stock was being issued, coupled with the fact that the draft report submitted to you by the department did not curb any stock jobbing in this regard, you saw there the opportunity for an enormous profit in stock jobbing, on a very small cash investment. Is that not true?—A. No, that would not be wholly correct. You would have to start off by stating here that there was to be a cash investment as reflected by Dun & Bradstreet's statement; and we say, subsequent to that, "Hahn, what did you put into this company? We want the cash investment." He tells us, as I said a moment ago, the actual cash—I am giving round figures—is \$160,000 and the commitments to the company are \$189,000 more; then, of course, there is the mortgage on there of \$150,000.

Mr. McGEER: Then there was additional working capital of \$100,000.

By Mr. MacNeil:

Q. Guaranteed by the shareholders?—A. When you state that was money that was actually in there, we have to take out of that, that which was already there of \$99,970; and there is accounts receivable of \$20,000; inventory, \$9,000; and those three items total \$129,470. We will call it \$130,000. Then the live liability is the \$10,000 accounts payable. Take that out of the \$130,000 and it leaves you \$120,000. You take that \$120,000 out of the cash statement I gave you a moment ago—I will repeat it—\$160,000, \$189,000 and the mortgage of \$150,000, making up the \$500,000. You take the \$120,000 out of that and you have got \$380,000 left for land, plant, buildings and equipment. Let us value the land at \$100,000; that brings you down to \$280,000 that we discussed sometime ago as relating to depreciable assets. Therefore, I have covered for you the actual cash and how it appears in asset value in the company.

By Mr. McGeer:

Q. Coming to that exhibit 56 which ties in with exhibit 52, I think the portion of that which is pertinent to this inquiry is to be found on page 3, commencing:—

In addition to the several points mentioned in the subcommittee's report. . . . —A. That is right.

Q. . . . Certain others were brought out at the meeting of February 25, 1938.—A. That is right.

[Mr. C. Fraser Elliott.]

Q. Information as to the cash position of the company was desired. Please see Major Hahn's letter dated March 1, 1938, and letter dated March 2, 1938, from the manager of the Bank of Montreal, Toronto, Ontario. Both are quoted below:—

Mr. Sharpe has requested that I advise you of the actual amount of cash invested at the present time, and to be invested prior to the commencement of the manufacture of the Bren gun, by the present shareholders of the John Inglis Company Limited.

The John Inglis Company Limited was purchased by the present shareholders for the purpose of continuing a business that had operated successfully for over fifty years and had established and maintained an enviable reputation for its products across Canada. This purchase comprises one of the largest and best equipped plants, for its purpose, in the Dominion, and carries with it the name and goodwill of the enterprise. The business transacted by this company during the period of twenty-three years prior to our purchase amounted to an average of \$1,170,419 yearly.

Our financial set-up has been based upon a projected budget that provides for a conservative amount of this standard business and ample working capital.

The actual cash invested to date by the present shareholders is \$160,465.

Bondholders interest \$150,000.

Additional cash capital committed for by present shareholders, to be provided prior to the manufacture of Bren guns \$189,535.

Additional working capital guaranteed by present shareholders as required by company \$100,000.

Revolving bank loan which will be arranged as required \$200,000.

The working capital of the company will be approximately \$335,000, not including the revolving bank loan of \$200,000.

In making an estimate of profits in relation to the investment in the business, I would like to point out that in addition to the working capital provided by the new shareholders, the property, buildings and plant of the John Inglis Company Limited stood on the books of the company, at the time of our purchase at \$1,288,618.88, after depreciation.

Our bank account is with the Bank of Montreal, 30 Yonge street, Toronto.

Now, that was the information that was before you?—A. That is correct.

Q. I presume you checked it and found it correct?

Mr. MacNEIL: Read the balance, one or two paragraphs.

Mr. McGEER: Major Hahn has shown me a copy of his letter to you of the 1st instant and relative thereto he has suggested that the bank confirm the cash position of the company at this date.

Accordingly, we hereby certify that the John Inglis Company Limited has a cash balance at their credit with us in the amount of \$100,247.89. Furthermore, we are in a position to state that additional cash has been previously invested in the business to the extent of \$60,465.

By Mr. McGeer:

Q. So that was the statement from the Bank of Montreal confirming the fact that \$60,000 had been invested?—A. That is right.

Q. Is that what you want?—A. I want to answer your question. Your original opening question was: having all this financial set-up before you, did you contemplate the selling of stock bringing home in an inflationary sense some profit to the sellers of stock. Was not that your question?

Mr. MacNEIL: Yes.

The WITNESS: Then, we get into this financial set-up, and having covered that a little, I would say this, it was not the financial set-up of the company that necessarily concerned us in wanting to prohibit the sale of stock, based on the inflationary thought that would relate to the making of munitions, but whether the capital of the company was good, bad or indifferent. We envisaged the possibility of a company having a contract reorganizing itself, increasing share capital and selling those shares if the market would absorb them, on the basis of a munition contract, or it might assign its contract to another company which would be highly capitalized, and the stock of that company would be sold and bring a profit home to those individual shareholders of this company. So it was not because of the capital structure that we did that. It was because of the possibility, whether the capital was good, bad or indifferent, I repeat. We wanted to stop the immediately bringing home of the ultimate profits, or even to a greater extent the puffing of it as being a company with a huge gun making contract.

By Mr. MacNeil:

Q. You recognized the possibility in the situation?—A. Yes.

Q. That on a very small investment they could have made a clean-up of over a million dollars?—A. I repeat that on the investment, it did not matter what the investment was. The clean-up we apprehended was the selling to the public of stock in a company that had a munitions contract for making small arms for Canada. It did not matter whether the investment was small or great. The money they were going to get, through the selling of stock we apprehended, was because there was a munitions contract, not because the capital was small or great.

By Mr. Bertrand:

Q. You did not want them to capitalize on this contract?—A. Exactly so.

By Mr. MacNeil:

Q. Did you know at that time of hidden holding companies?

By Mr. McGeer:

Q. You knew the set up of the John Inglis Company and the distribution of stock at that time?—A. The answer to that question, I think, is "no." I do not think we knew of any hidden holding companies.

Q. Are there any hidden holding companies?

By Mr. MacNeil:

Q. You knew of Anglo-Engineering Company and Industrial Reserves?—A. No. I would say, generally speaking, we were impressed most by the fact that the control of that company was in Hahn's hands. That we made certain of. Who the other shareholders were was not of great concern to us if we did two things, primarily; (1) got a satisfactory contract and (2), prohibited inflationary actions in that stock; because the company was controlled by one man and the other shareholders did not matter so much.

Mr. McGEER: There is just one question I should like to ask there.

[Mr. C. Fraser Elliott.]

By Mr. McLean:

Q. Will I be correct also in understanding that you did not want this contract sold quickly, the profits realized and the Inglis Company under Major Hahn's managership passed out of the carrying out of the contract that was contemplated at the moment.—A. We wanted the very person with whom we were contracting to make the gun.

By Mr. McGeer:

Q. I find on page 38 of the report of the commissioner a statement contained in the departmental sub-committee's report as follows:—

Having in mind the main committee's suggestion that competitive bids be called for, the sub-committee, as an indication only of the names of concerns from whom competitive bids might be asked, mention—The Steel Company of Canada; Dominion Bridge; Canadian Car and Foundry Company Limited; Bertram Company; National Steel Company.

All these companies are public companies and all their stocks are listed?—A. Sure.

Q. On the stock exchange?—A. Yes.

Q. Do you think you could enter into any contract with any of those companies under which they would guarantee that stock in their companies would be withdrawn from sale?—A. Well, if you are addressing the question to the previous conversation—

Q. Yes, I am.—A. I indicated that this sub-paragraph of section 1 of the contract was intended to go as far as we could to control those shareholders of the company.

Q. But the point I asked you was this: Do you think any of those companies could enter into a contract with the government or anybody else with a term in it that there was to be no dealing in their stock which is listed on the market and which is held by the public?—A. Well, let me answer that question very carefully. They could enter into a contract, but they would not do it for this reason—

Q. All right.—A. Let me answer.

Q. Yes?—A. Any company, whether its stock is listed or not, can make a contract with the government or anybody else, that if some of their shareholders sell their stock, then that contract is ineffective, although the shareholders are not parties to the contract. Therefore, as a contractual possibility or right, the National Steel Company could enter into that kind of a contract, but it is absurd to think of it because they would not do it.

Mr. BERCOVITCH: Naturally.

The WITNESS: So we are talking in the realm of what can legally be done and what can practically be done. Legally it would, but practically it would not.

By Mr. McGeer:

Q. You had a company here set up and you wanted to prevent anything in the way of reorganization or manipulation of the stock?—A. Right.

Q. And what you state is that if, in this contract, we find that either the company or those associated with it are converting it from a contracting company into a stock jobbing company, we have power to cancel the licence?—A. That is right.

Q. And you have that power?—A. Well, we took it as much as we could get it in a contractual relationship.

By Mr. MacNeil:

Q. Did you take any such precautions in the draft contract?—A. In the original draft contract such a question was not there.

By Mr. Bercovitch:

Q. In the British contract there is no such clause?—A. I will say no, but let me confirm it, and I will answer it again. As I remember it, no, it was not there.

By Mr. McGeer:

Q. In any event the interdepartmental committee was fulfilling its obligation to limit and restrict the possible chance of profits to the best of their ability; is not that correct?—A. That is correct.

Q. And they were appointed by the government of the day to do that very thing?—A. That is right.

By Mr. Douglas:

Q. May I clear up one point with reference to the provisions which the interdepartmental committee took, commonly called the stock jobbing clause. That did not apply to the 220,000 shares already issued?—A. Well, I have to go over that again. You cannot answer that "yes" or "no." That clause was so drawn that those shareholders who held the 220,000 shares—and we knew that Major Hahn held the majority of them—if those shareholders sold their shares without the consent of the department though it was a third party action by persons strangers to this contract, yet the John Inglis Company did sign the contract to say if the third parties did these things the contract was subject to cancellation, or it was a breach of the contract.

By Mr. McGeer:

Q. Did you hear the conversation between Commissioner Davis and Mr. Geoffrion?—A. No.

Q. On that thing?—A. No.

Q. I think you will find that Commissioner Davis in his capacity as a judge of high standing in Canada made a very specific finding on that.—A. Said it could not be done?

Q. The point is this: in your opinion, is it possible for a company with an overriding limit of profit of \$450,000 to convert that \$450,000 into millions of profit in a stock jobbing proposition?—A. I could not answer that. We apprehended, if it were possible in the remotest way, we put in a clause to try to stop any such action; but I could not answer that.

The CHAIRMAN: We will adjourn to Tuesday at 11 o'clock.

The committee adjourned at 1.15 p.m. to meet Tuesday, April 18, at 11 a.m.

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SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

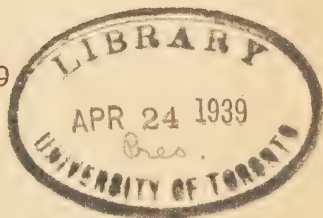
RESPECTING

THE BREN MACHINE GUN

AND OTHER ARMAMENT CONTRACTS

No. 8

TUESDAY, APRIL 18, 1939



WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, April 18, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Barry, Bercovitch, Bertrand (*Laurier*), Blanchette, Brooks, Douglas (*Weyburn*), Ferland, Fleming, Fraser, Glen, Golding, Goulet, Héon, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McPhee, Marshall, Purdy, Rickard, Slaght, Stirling, Thauvette, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue.

Complying with instructions given by the Committee at its last meeting, the clerk tabled a statement showing, by countries of manufacture, the total cost of machinery purchased for installation in the plant of the John Inglis Company Limited.

On a question of privilege, Mr. McPhee drew to the attention of the Committee to certain statements appearing in the *Financial Post* of April 15, 1939.

Discussion followed.

Examination of Mr. Elliott was continued.

Mr. MacNeil requested the witness to prepare, for the next sitting of the Committee, a statement showing the anticipated rate of return to the contractor on the invested capital under the Bren machine gun contract.

The Committee adjourned until Thursday, April 20, at 11 o'clock, a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

April 18, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum now and I should like to get down to business.

Mr. McGEER: Have we not been down to business before?

The CHAIRMAN: I wonder if members of the committee would mind if I suggested we ought to do our best to get here at 11 o'clock on mornings when the meetings are called, or at the time appointed.

Hon. Mr. STIRLING: I was here.

The CHAIRMAN: Some of the gentlemen are here on time, and it hardly seems fair to have to hold up our meetings for fifteen and twenty minutes to wait for others. Before calling the witness this morning —

Mr. MCPHEE: May I interject right here, before you start in, that in addition to asking the committee to arrive on time I think we ought to do something to protect our privileges. I have here a paper that was gratuitously sent to me, the *Financial Post*, in which they deal with the proceedings before our committee. Perhaps my object would be better served by just giving a few of the salient matters which it mentions. This is what it says:—

The judicial report on the Bren contract settled nothing except that it gave sensational corroboration for every point raised by Colonel Drew in the *Maclean's* magazine article. Commissioner Davis passed responsibility for the contract directly back to "the government and parliament."

So far, the government has avoided direct assumption of this responsibility. It has passed the buck to the public accounts committee of parliament.

The tenseness of the present international situation makes it imperative that questions such as these be answered to the public satisfaction. The nearer Canada comes toward war, the more essential it is that the disclosures of departmental incompetency and of abused public trust, such as were raised by the Bren contract, be answered.

This is the responsibility which Mr. King has passed to the public accounts committee. Unless the committee assumes that responsibility and moves quickly to answer questions such as those which Commissioner Davis raised, there will be no confidence that the government is adequately prepared to meet the emergencies of the present critical world situation or to discharge its responsibilities in respect of defence and armaments.

Now, Mr. Chairman, if we were a court a paper would not dare to make that comment on our proceedings; but we are a court. We are a court created by the highest authority of this country and I submit that we have the right to protect our own rights when our privileges are invaded by a newspaper of this kind. I am satisfied that every member of this committee has done his best to get the evidence before the committee, and I for one refuse to have my work judged by somebody sitting in a swivel chair who knows nothing whatever about the proceedings of parliament and the proceedings of this committee.

Mr. BERCOVITCH: Mr. Chairman, I want to say a word or two in addition to what the hon. gentleman has just said. I think, to say the least, it was most improper for the newspaper in question to make the statement that it did make. As a matter of fact the Royal Commission did deliver a finding, or several findings, and one of these was that the learned justice said there was absolutely no suspicion against anyone, no member of the government, no member of parliament and no member of the senate; and it went further and said that there was no corruption of any kind disclosed before the commission at any time. After all, as Mr. McPhee very properly pointed out, we are a court; we are a part of parliament, and it was parliament who directed us to investigate the matter before the committee at the request of a member of the official opposition. The government quickly acceded to the request, and from the very beginning, before any discussion took place in the house at all, before there was any debate at all, the Right Hon. the Prime Minister, if I remember correctly, said he would refer the matter to the public accounts committee. The public accounts committee is here upon an order from parliament requesting that we further investigate this matter. Surely the gentleman who is responsible for the article in the newspaper that Mr. McPhee has just read, to put it mildly, ought to have better sense than to condemn this committee and parliament and condemn everybody connected with this matter, and surely ought not to condemn the learned justice of the Supreme Court who made certain specific findings and submitted them to parliament. I think it is entirely uncalled for and is a matter that I believe, Mr. Chairman, should call for some comment from you, sir.

Mr. McGEER: Mr. Chairman, you see, this is what the article in the paper refers to:—

To the Public Accounts Committee of the House of Commons, Mr. King has now passed the responsibility stated so clearly by Commissioner H. H. Davis in his report on the Bren contract early this year.

"The facts are all in evidence . . . It will be for those charged with responsibility of dealing with the facts, i.e., the government and parliament, to examine and study them and to take such action, if any, thereon as they may see fit."

So far, the Public Accounts Committee has been slow to shoulder this responsibility. Evidence that has come before it to date has centred largely on unimportant and irrelevant matters. Important questions posed by Commissioner Davis in his report and also in the article entitled "Canada's Armament Mystery" in MacLean's magazine, have been ignored.

Yet it is the answers to these questions which the public now want to know.

Well, Mr. Chairman, for a statement of that kind to appear in the press while this committee is sitting means first a charge against the Prime Minister that he has shifted the responsibility of parliament to this committee. Now, the only way that parliament can deal with an issue of this kind is to debate it in the house, and if it were found that there were matters of detail, after full debate in the house, that should be further investigated, a committee of parliament was the proper body to make that investigation. It just so happens that in this case a member of the unofficial opposition moved in the house that this matter be referred to the public accounts committee. That resolution was accepted by the government, and this committee is responsible to parliament. There is no passing of parliamentary responsibility in that conduct of the Prime Minister as leader of the government of the day. On the contrary, there is the most complete fulfilment of parliamentary obligation and duty, and it is done in the only way that parliament can perform the function that this paper says should be performed.

I find in this committee we have made an examination of the plant, and certainly the charge that it was a broken-down boiler factory was completely dispelled.

Mr. MACINNIS: Not at all.

Mr. McGEER: My friend says "not at all."

Mr. MACINNIS: Hold that until you are giving evidence.

Mr. McGEER: I am answering now something that you ought to be interested in with me, that is whether or not parliament should be condemned improperly.

Mr. MACINNIS: We both cannot talk at the same time.

Mr. McGEER: I hope you will recognize that.

Mr. MACINNIS: I do.

Mr. McGEER: The point I am making is this: as far as I am concerned, and I think as far as the majority of the members of the committee are concerned, we want to examine the plant to ascertain whether or not that plant was competently and efficiently preparing for the production of Bren guns. That is the issue. Certainly I did not see any evidence of a broken-down boiler plant. My own personal experience, after having worked in these plants, would lead me to say that I think I saw one of the most efficient organizations brought back to life in the Dominion of Canada that exists in this dominion.

Mr. MACNEIL: Brought back to life.

Mr. MACINNIS: That is the point.

Mr. McGEER: My friends are now taking the same position they are always taking. The bringing of industries of all kinds back to life in the Dominion of Canada may not be the wish of some members of the committee; it may not be the wish of some members of parliament, but it is the wish of this government and it is evident in the result of that policy. Now, the other charge is that the committee are not proceeding to investigate the facts. Well, I think that the facts that have been disclosed here have gone to the very root of what Mr. Davis calls the substance of the contract, and the substance of the contract as contrasted with its form is the result that the contract produces. I might say, this kind of newspaper condemnation is hardly fair to parliament, and it is hardly fair to the procedure of parliament that is available for the investigation of all public affairs, and which has been resorted to in this particular instance.

I, for one, believe in the fullest criticism by the press. Our whole institution of the freedom of the press is based on the principle that the public shall get news and get the facts; but there is such a thing as an abuse of that privilege, and I think this charge is an indication that the newspaper involved is pressing the charge unduly, and criticising both parliament and this committee with a bias and partisanship in a controversy that should be investigated fully without any bias whatever.

Certainly as far as I am concerned I think that we have given, as members of the government side of the committee, every freedom and every co-operation to all members of the committee to produce any evidence and secure any facts that they desire to bring before this committee. This committee is a wide open enquiry, and I do not think there could be any complaint made up to date, at least, of the procedure of the committee in so far as the government majority is concerned in being willing to co-operate with all the members of the committee in having the fullest examination possible.

The CHAIRMAN: Gentlemen, perhaps after what has been said this morning in connection with this article in the *Financial Post* it is incumbent upon the chair to make some reference to the remarks, particularly of my —

Mr. MACNEIL: Before you make your remarks, may I speak to the point? Mr. Chairman, I think it is a most unusual procedure and in my opinion positively childish. There has been no violation of the privileges of members of

parliament in this regard. This is a responsible journal, and has dealt exhaustively with this matter. I think it is perfectly free to offer such criticism as they have choose in regard to this matter. I do not interpret the article as tendering any charges in regard to the conduct of this committee; the extended discussion in regard to this matter has been seized by some of the members as an excuse to further obscure the issue. Mr. McGeer took the opportunity to say that the visit to the Inglis plant in Toronto had proven it was not a broken down factory. At no time had the present state of efficiency of the factory been in question. What was in question was whether or not it was fully equipped as other plants were in Canada until this year at the time or prior to the execution of the contract.

I think it is undignified for this committee to discuss the matter further. There has been no violation of our privileges.

The CHAIRMAN: Gentlemen, what I was going to say in connection with the remarks passed by, I think, three members of this committee, was simply this: that personally I feel, and I know that each and every member of this committee feels, that the press of this country has a responsibility as well as members of the committee; but I do think that the press of the country should extend the same respect to members of parliament and members of this committee that they expect extended to themselves, individually and collectively. I believe that each member of this committee will agree with me if I mak this statement. I believe this committee will conduct the proceedings of this enquiry as indicated by the members of this committee individually and collectively.

Mr. BERCOVITCH: Hear, hear.

The CHAIRMAN: This committee will be conducted within the jurisdiction given it constitutionally by parliament under the heading of the public accounts committee. In that I believe each and every member will agree with me, and I believe we are capable of doing that, and as I have repeatedly said from the chair, this investigation will be carried on without restriction and thoroughly, without any complexion of partisanship; as far as I am personally concerned every member will be treated as fairly as possible. Everything requested will be obtained and laid on the table without suggestions from any member of the press or all the the press of Canada.

I believe everybody will agree with me when I state that we are capable of conducting this committee, and as far as I am concerned, with the co-operation of all the members, we shall proceed to do that.

I quite agree with the remarks of my good friend from north Vancouver, and with these few remarks I should like to place on record this morning the totalling up of the figures covered by the report that was presented to the committee at the last meeting in connection with the purchase of machinery and equipment from different countries, including countries within the empire and outside the empire. It was agreed the other day that these would be placed on the record in condensed form, which I am doing now. These figures will be designated as exhibit A (1), and will be available for inspection as has been agreed upon by the committee. I trust that will be satisfactory to everybody?

Mr. MACNEIL: Will you put this summary in the record?

The CHAIRMAN: We are putting the summary in the record.

Mr. McGEER: Summary of what?

The CHAIRMAN: The bulking together of the purchases from the different countries. May I repeat it, so everybody will understand it? These details will be filed as exhibit A (1) and will be available to each and every member of the committee.

Mr. ISNOR: The summary is not very long, why not read it, so we will know what is going on?

The CHAIRMAN: "Cost of machines purchased by the Department of National Defence for installation in the plant of the John Inglis Company, Limited:—

Country of manufacture	Cost exclusive of duty and taxes	Duty and taxes	Cost inclusive of duty and taxes
Canada.. . . .	\$ 55,752 73	\$ 4,504 27	\$ 60,257 00
England.. . . .	333,949 88	26,985 32	360,935 20
United States.. . . .	278,961 85	65,456 77	344,418 62
Others (non-British).. . .	20,216 85	4,652 55	24,869 40
Total.. . . .	\$688,881 31	\$101,598 91	\$790,480 22

Mr. McPHEE: The statement I have here gives the number of machines manufactured in each country.

The CHAIRMAN: I can add them. I just gave the total cost.

Mr. McPHEE: I think for the purposes of the record it had better be done.

The CHAIRMAN: At the request of the hon. member, I give the following:—

No. of machines	Country of manufacture
40	Canada
174	England
100	United States
6	Others (non-British)

Now, we are ready to proceed.

Mr. McPHEE: This more or less confirms the point raised by myself before the committee on the 30th of March. You remember on the 30th March you filed a statement of the firms from which machinery in the Inglis plant had been purchased? It is found on page 97 of the evidence. Mr. Brown, a member of the committee, made a statement that a couple of these firms were merely jobbers. This is what he said:—

Mr. BROWN: A couple of these companies are merely jobbers. That would not determine from whom this machinery was purchased. It would tell us who purchased it but not from what source it came.

The CHAIRMAN: Would not that apply to a lot of machinery, Mr. Brown?

Mr. BROWN: My idea was to find out how much of this machinery was actually manufactured in Canada. That was the purpose of my question. I wanted to know how much was purchased in Canada. When we were at the plant we were told that practically all the new machines were purchased either in Hartford or some place in Wisconsin. There were some purchases made in Switzerland and a few purchases made in England and there was one machine purchased in Hamilton. I was referring particularly to the newer machinery.

The CHAIRMAN: I wonder if we can get the information for you in this way: if we can procure a list of machinery purchased through any source, manufactured in Canada, manufactured in the United States, and manufactured in Great Britain, would that cover it?

Mr. BROWN: Yes.

The CHAIRMAN: I am of the opinion that the order in council which governs public works would apply to these purchases. That order in council says that the purchases must be first made in Canada if procurable, secondly in the British empire, and thirdly from non-empire sources. We might get information whether that governing clause applies to purchases of equipment for this contract. Would that cover it?

Mr. BROWN: All new machines. When I was at the plant I understood that there was only one that was purchased in Canada, or at least manufactured in Canada, and probably one or two manufactured in Great Britain. I understood the others were all of American manufacture.

Mr. McPHEE: Is this going into the record as evidence?

Mr. BROWN: We are simply trying to arrive at an understanding.

Mr. McPHEE: I know, but you are putting this on the record.

The CHAIRMAN: I do not think there is anything there that should not go on the record, because we are trying to clear up this point with Mr. Brown.

Mr. McPHEE: The reporter is taking down what he has said.

Then later on I raised the point and said as follows:

Mr. McPHEE: I should like to speak on the point of order I raised a few moments ago. I insist that the statement made by Mr. Brown with reference to the place of manufacture of the machinery should be deleted from the record. If not, it will go out as evidence and be circulated all over the country that only a small portion of the machinery was purchased in Canada, a small portion in Great Britain, and the rest elsewhere. That may or may not be true, but there has been no evidence given so far along that line.

What are the facts? Mr. Brown's statement has had a wide circulation in this country, and here are the facts brought down this morning which show that 40 of these machines were manufactured in Canada, 174 in England, and 100 in the United States and 6 in other non-British countries. I submit if the proper official of the department was here to give evidence it would be shown that those purchased in the United States and non-British countries were such as could not be obtained in Canada or in the empire.

Mr. BROOKS: You had better wait until the official is here.

Mr. McPHEE: That is the very point I raised when Mr. Brown made the assertion that only one of these machines were manufactured in Canada.

The CHAIRMAN: Gentlemen, we shall proceed with the witness now.

Mr. McGEER: Mr. Chairman, I should like to clear up a matter that deals with the article in the paper. The issue of the *Financial Post* referred to by Mr. McPhee is dated April 15 and it relates at least to a point the committee had under consideration at the close of its last sitting. The article says:—

Thousands of words and scores of pages of evidence were devoted to this phase of the contract. There was a frank admission from J. D. Cameron, stock broker, who, as Colonel Drew pointed out in argument before the Royal Commission, made "no reservation at all about the fact that so far as he was concerned, it was a stock selling job from the outset." There was the mysterious incorporation of three separate companies.

And so on. We were dealing, Mr. Chairman, at the last session with the controlling powers of clause (1) of the contract.

Mr. C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, recalled.

The WITNESS: The second paragraph of section 1 of the contract.

By Mr. McGeer:

Q. Would you mind reading that into the record now, Mr. Chairman? I think I should like to have it in the record so that we can deal with it specifically.

[Mr. C. Fraser Elliott.]

The CHAIRMAN: That is on page 2.

Provided further, that notwithstanding the provisions of anything herein contained, the said licence shall be subject to cancellation if in the course of the period thereof the party of the second part should sell shares, stocks, bonds, debentures, notes or other like securities to the public, directly or indirectly, or through the medium of other companies the proceeds of which are not directly applied to the business of the party of the second part and there remain applicable for use in the carrying on of said party's business, then the licence shall cease unless before the issue of such security instrument the consent to the issue thereof has first been secured from the party of the first part.

That was the one.

By Mr. McGeer:

Q. I think you had better put it all in. I think if you add to that paragraph 15 it will be complete, Mr. Chairman.

The CHAIRMAN:

No member of the Senate or the House of Commons of Canada or of the parliament of the United Kingdom shall be admitted to any share or part of this contract or to any benefit to arrive therefrom.

By Mr. McGeer:

Q. Mr. Elliott, I think probably I was to blame because we got into a discussion as to what companies could do by way of incurring contractual obligations, and upon that hypothesis I think we got somewhat away from the terms of the contract that we were discussing. I should like to refer you to what I think is a very specific finding of the commissioner, the honourable Mr. Justice H. H. Davis, at page 4508 of the record of the royal commission investigating the Bren gun contract. This particular matter will be found in the record of the thirty-fifth day of the inquiry. Mr. Geoffrion, addressing the commission, says:—

I make my argument on that point, Mr. Commissioner, and I need not repeat it; but in what respect is this government concerned with anything but our ability to make these guns within the time, at cost plus, the cost being controlled by the government?

Then we come to Cameron's sale of stock. Here, Mr. Commissioner, I trespass on Mr. Parkinson's argument; but it has been said—and I think I can shorten my remarks on that account—that it was not a breach of my contract, so that is the end of that.

When Mr. Geoffrion referred to "my contract," he was acting for the John Inglis Company and had in mind clause 2 of that paragraph?—A. That is right.

Q. The evidence continues:—

The COMMISSIONER: I do not think that was a breach of your contract at all. I do not think there was any clause in any way prohibiting that.

Mr. GEOFFRION: Then there is a rather interesting discussion as to the possibility of clauses preventing that.

The COMMISSIONER: I must say at once that I am not expressing a legal opinion on that; but I mean to say that you need not argue that it is not a breach, because I am quite satisfied that it is not, and I would not find that it is.

Now, that was not out of line with your evidence, was it?—A. Given before the Davis commission, no.

Q. Your evidence, if I might refer to it briefly, comes to a point I think at page 961, which reads as follows:—

Q. Whatever your thoughts were that night, they must be plain to you now that that clause does not affect or attempt to affect the sale of the then issued 220,000 shares?—A. Not the 220,000, no, but it would affect, I think, a split of them and issuing three for one or something like that. That is perhaps a question of interpretation.

The shares that Cameron sold were of the 220,000 that had been issued; that is correct?—A. That is right.

Q. So that nothing has happened since which could be interpreted as a breach of the contract?—A. Not to my knowledge.

Q. And there was no breach of the contract then?—A. I do not think so, but I should like to take up your opening remarks in that series of facts. We did at the last meeting drift considerably away from the terms of the contract under discussion. I do not think it was entirely your fault, as you suggested; it was the growth from around the table. You asked me at the close if I had read the honourable Mr. Justice Davis' comments when discussing the matter with Mr. Geoffrion, and I said "No." Since then I have read them. I read them at home and we read them again this morning for the committee, and I agree with the statement of the honourable Mr. Justice Davis that that sale was not a breach of the contract. But we are not through if we just stop there.

Q. I quite agree.—A. We must go on and pick up the character of the discussion we had. If I may develop it, it was this: We were away from the contract and we were discussing the capacity—although we did not use that term on the last occasion—of a company or two persons or corporate entities to contract and have a term in their contract which would be sound in law but which would be a breach if some third party did something that the term in the contract said shall not be done, and, if it is done, shall be a breach of the contract.

In connection with the capacity to contract, I have verified it and, if I may, I should like to read into the record a very short paragraph of what Anson states on the matter. I am quoting from Anson, 18th edition, p. 322:—

A contract may contain within itself the elements of its own discharge in the form of provisions expressed or implied for its determination in certain circumstances. These circumstances may be the non-fulfilment of a condition precedent, the occurrence of a condition subsequent—(that is our case, the probability of our case)—or the exercise of an option to determine the contract reserved to one of the parties by its terms.

Halsbury, 2nd edition, volume 7, p. 221, states:—

A condition may depend on an event which is dependent upon the will of one of the parties to the contract, or upon the will of a third person.

These quotations simply support what was, I think, the general view at the last meeting, although it was somewhat confused, namely, that two persons can contract one with the other and have a term in the contract that will cause the contract to be abrogated if a third party does or refrains from doing a certain thing. I think that exhausts the discussion we had apart from the contract.

[Mr. C. Fraser Elliott.]

Q. Yes.—A. Now we come back to the terms of the contract. I opened my discussion on that paragraph by stating that it absolutely fell into two parts. On the first part I think there is general agreement now, namely, that if the company itself issued shares and inflated the shares and issued more without the consent of the minister then there would be a breach. Nothing like that has happened.

Now we come to the second part of the paragraph under discussion and that is, could a third party sell their shares that had already been issued at the time of the signing of this contract and thereby cause a breach of this contract? That means the action of a third party to which Anson referred. I made the statement that the second part is subject to certainly more than one possible interpretation. Which one is right would depend upon the circumstances which happened and in respect of which the second part of the paragraph would be interpreted. We have touched this morning upon one set of circumstances that happened, namely, a shareholder did in fact sell his shares. Now, did that amount to breach of the contract? The honourable Mr. Justice Davis says no. I agree with that. But let us develop it a little further, because this was where we moved away from the contract and I did give the opinion, and I repeat it, that there are possible circumstances which though committed by third parties who already had the shares issued to them might amount to a breach of this contract. I would be inclined to the view that it would be a breach, and these are the circumstances that I envisaged at the time of drafting this section: Hahn controlled the shares of this company, that is, he was the majority shareholder. Now, presume that Hahn and the other shareholders put their shares en bloc into another company called the John Inglis Commercial Company Limited, and that company was so organized that it had a great many shares, we will say, at a low par, but in the aggregate a very large sum of money; they were really capitalizing on the goodwill of this contract by transferring it to this new company, the commercial company. Then if they proceeded to sell the shares of that company to the public and thereby brought home through that medium large profits to the group of shareholders who did this thing I described, collectively, then I would say that they would stand in great jeopardy of having infringed the second part of this paragraph, particularly in relation to the words which state that if the John Inglis Company—I am putting the name in—should sell shares directly or indirectly, or through the medium of other companies, and the proceeds are not applied, as in my example they would not be applied, and were not applied to the business of the John Inglis Company, the contractor, then the licence shall cease. Now, you would have to interpret this set of facts that I gave you and say, “Do they not come within the contemplation of the language used in the second part of this paragraph?” I am not going to answer that question; I simply raise it.

By Mr. Bercovitch:

Q. But that is always assuming that the minister's consent was not first obtained?—A. Quite so. Thank you. That is a condition precedent. Therefore, I am not going to answer that question. But as reasonable men, not necessarily lawyers at all—do not run away from the question those who are not lawyers—but just as reasonable men would it not be possible that such a collective action in such a direct way would be to cash in—if I may use the street term—to cash in, on the basis of a munition contract, the profit on the sale of shares, qua shareholders, in a similar manner to what they might have done by increasing the capital stock of the John Inglis Company? In that event I would be inclined to say there is a great deal of possibility of the contract being cancelled.

By Mr. McGeer:

Q. You have cited many instances of the same type of thing, Mr. Elliott, in your evidence before the commission, namely, if the shares now issued were returned to the company and reissued on a split basis of, say, three to one, it would also provide an opportunity of making profit out of the company. Such a manipulation as that would have to be consented to by the minister unless those doing that kind of thing were going to risk cancellation of the licence?—A. I said that in my evidence before the honourable Mr. Justice Davis. I say it again; that is correct.

Q. Of course, there are a number of other ways?—A. Oh, yes.

Q. By which owners of the shares of a company, and particularly those who own and control the majority of the shares of a company, can manipulate an operation to produce a profit out of those shares?—A. Unquestionably. The minds of men, and especially of those skilled in these things, have ways of doing these things that perhaps you and I in our simplicity would never come to.

Q. I have marvelled at my own lack of understanding of some of the opportunities which I have seen others grasp; but in such manipulations designed to produce a profit for the benefit of the existing shareholders, I take it that without the consent of the minister, under the terms of this clause 2 of paragraph 1 of the contract the licence would be subject to cancellation?—A. I should think so.

Q. I want to summarize, if I may, as I interpret the situation, the protective provisions against converting shares into excessive profits. I take it that the first one is the limit of the total profit that can be made under the contract.—A. That is correct.

By Mr. MacNeil:

Q. That refers to production profit, does it not?—A. No. When I say it is correct perhaps I should say—

By Mr. McGeer:

Q. All the profits that can be made out of this particular contract and the British contract have been fixed and determined?—A. Yes. When I say it is correct and very correct let me explain because I followed your mind but perhaps the rest of the committee were not with me. When we fixed the limit at \$267,000 as the maximum profit that could be secured out of this contract by the fulfillment of its terms, then how could the stock be so manipulated in the face of the terms of the contract to be sold to the public under any scheme of puffing that would not amount to deceit, so that an innocent purchaser would buy the stock of a company which had a munition contract, the purchaser contemplating huge profits by the mere mention of a munition contract? There is an association of ideas in the mind of the public that because there is a munition contract ipso facto there are great profits. But if the vendor of the stock sold without disclosing the terms of the contract, namely, that there could not be an inflated profit because it was limited to \$267,000, I repeat, if he sold under those terms I would think that the purchaser would have a fairly good action to rescind the contract and get back his money on misrepresentation. Therefore, when I say to you, Mr. McGeer, that the \$267,000 maximum profit was a good stopper on the sale of shares in an inflated sense, I repeat that it is very true.

Q. What I said was that that was among the protective provisions, and I enumerated that as one. That was in the contract?—A. That is right.

Q. The second provision is the fact that there is in operation in Ontario a securities commission which has power to investigate and control the price of stock of companies and operating in Ontario.—A. I know of that commission and in general of its powers. I do not know of it particularly, but it is there.

[Mr. C. Fraser Elliott.]

Q. There is such a body?—A. Absolutely

Q. And it is the body which under our constitution has jurisdiction in the supervision of shares of a company, such as the John Inglis Company?—A. That is correct.

Q. And the third protective provision is paragraph 2 of clause 1 of the contract which gives to the government of Canada the right to supervise and consent to the stock operations of the company and indirectly the stock operations of the shareholders of the company to the extent that if those operations are not consented to by the government, the government has the right to cancel the contract which means the termination of the contract?—A. That is the meaning of paragraph 2 of section 1.

Q. Mr. Elliott, you have had a good deal of experience in your work during the administration of the war profits tax laws, have you not?—A. I have had some experience, yes.

Q. I mean, you had enough experience to become conversant— —A. I went through it all.

Q. You made a report to the Skelton committee which was set up by the government, and this report was a very full report?—A. That is true.

Q. As to what was necessary?—A. That is true, yes.

Q. Now, facing this problem, as you must face it, of securing production and controlling profits, there is a limit to the control that any government can set up before it comes to interference with the production of armaments? That is true?—A. I should think there is a point, certainly.

Q. There is a point. Your control can go to the point of doing the very opposite of what is desired, namely, to create the possibility of production?—A. Yes.

Q. Having those facts in mind, can you tell me how we could in any contract of this kind insert more protective provisions against profiteering through stock manipulation than are contained in this contract?—A. Well, if I said there were more, then I would only have to say that I thought of them after we dealt with the contract, because in dealing with the contract the committee thought of as many safeguards as they could and inserted them in the contract.

Q. As a matter of fact, I think you told me the other day that this contract, if it controlled the operation of individual ownership of shares, would be one that substantial companies with shares listed could not as a practical proposition enter into?—A. They would not go into such a contract; would not think of it.

Q. As a matter of fact, it was only because Hahn and his associates controlled the majority of stock that they were able to do this particular thing?—A. Say that again.

Q. It was only because Hahn and his associates owned the majority of the stock that this— —A. Oh, I could not say what was in their minds. I should think that would be one reason. Another would be that they were anxious to get the contract and willing to take almost any limitation, because Hahn stated this in one of his letters:—

In view of the fact that this business is adequately financed by the present shareholders, the question of any public issue of the shares or any change in the capital structure of the company is neither contemplated nor intended.

Therefore, to answer your question, he probably did not mind the insertion of this paragraph we are discussing, because he did not intend to sell any shares. That is probably another reason, but there may have been a dozen other reasons in his mind which we cannot fathom.

By Mr. MacNeil:

Q. On the point of the maximum over-riding profit, Mr. Elliott, that is dealt with clearly in the letter dated September 3, now attached to the contract and issued or signed, rather, after the appearance of the article in MacLean's magazine?—A. Yes.

Q. The third part of that letter reads—

Consequently, on behalf of the company, I beg to confirm the understanding which was reached by the respective parties in the negotiations leading up to the making of the contract that the maximum over-riding profit payable to the company, both with respect to the pre-production and to the productions periods, including in the case of the latter the 25 per cent of the difference, if any, between actual manufacturing costs and the standard cost referred to in section 6 A, shall not exceed the sum of \$267,000.

In what respect does that letter or the section in the contract referred to deal with profits that might be made from stock transactions?—A. Well, that does not deal with it directly but it deals with it very strongly inferentially. For instance, if I want to sell the stock of that company, and say that company has a munitions contract, I should also say not that it will make enormous profits but that it will make a limited profit as the contract proceeds.

Q. This provision as regards the maximum over-riding profit has no direct relation to profits made on stock transactions, no direct relation?—A. No; emphasizing the word "direct" I would agree with your comment.

Mr. McGEER: But it has a relation.

The WITNESS: He is emphasizing the word—

Mr. MACNEIL: "Direct."

The WITNESS: Yes. We must agree that that is so. In other words, the terms of the letter itself do not state anything about contracts or stocks or profits on stocks, and that is what he means. Of course it does not.

By Mr. McGeer:

Q. I think what we are doing is something which there is always a danger of doing in a public inquiry of this kind, namely, confusing the legal interpretation of "direct" and "indirect" with the common interpretation of it. But it has a direct bearing on the capacity of an individual to manipulate the share profit; as you have just a moment ago said, no one could represent these shares, as a result of this particular contract, to have any greater value than the amount of value that would accrue to them out of the profits of his contract, which are definitely fixed and determined.—A. You see—

Q. Let me complete my question.—A. Yes.

Q. Surely that directly limits the power of a shareholder or group of shareholders to make an undue profit without misrepresentation?—A. Well, we are both playing upon the word "indirect" there.

Q. I agree with you.—A. Let me answer both of you at once. Mr. MacNeil indicates that letter and reads from it; he uses the word "indirect" relating to stock, and he states, "Does this letter from which I am reading directly affect the profit on the selling of shares?" Of course, I have to say, "No, it does not," because it does not directly state anything about shares. Therefore, it must, if it has any effect at all, be in the indirect way. The conclusions drawn from this letter by a person selling stock must be that if I sell it, I know from that letter that the contract profit is limited. But the letter itself does not directly state "stock." That exhausts, I think, your manner of reading it, as I understand it. Now we come to Mr. McGeer and he states, "But that letter must

[Mr. C. Fraser Elliott.]

have a direct bearing on stock, because the man who wants to sell it is precluded from puffing the profits extensively, because the letter stops it." If that be the meaning of the contract, then Mr. McGeer is right; but I would prefer to go back to Mr. MacNeil's statement and say that the letter, in the words contained in the letter, did not make any reference to stocks; but I swing back to Mr. McGeer and say, "Certainly, a man who sells stock could not sell it on the face of that letter and puff the profits beyond what the letter and the terms of the contract provide."

Mr. McGEER: Unless he wanted to go to jail.

The WITNESS: You are both right. You are talking in different terms.

By Mr. MacNeil:

Q. But you admitted a moment ago that stock jobbers have mysterious ways of accomplishing that end?—A. Beyond the comprehension of the buyers.

Mr. SLAGHT: May I ask a question?

Mr. McGEER: Would you mind letting me clean up the point I am trying to get at?

Mr. MACNEIL: Mr. Slaght has a question.

Mr. McGEER: I thought you were through.

Mr. MACNEIL: No, I have some questions; I did not interrupt you.

Mr. McGEER: I was just going to clear this particular point up as we went along; and I feel that it is a matter that should be cleared up, because the charge has been made that the public had not been properly and adequately protected against profiteering manipulation of stocks.

Mr. SLAGHT: Who made that charge? I have not heard it made. There are all kinds of innuendo and things like that; but nobody has had the courage to get up and make that charge.

Mr. DOUGLAS: The commissioner did not feel convinced.

Mr. McGEER: As I say, I have taken a slightly different point of view on this thing. I think a charge can be made by innuendo even more definitely than it can be made by formulation. If a charge is formulated, you know what you have to meet.

Mr. SLAGHT: Who is the innuendo maker?

Mr. McGEER: We have it right here in this Financial Post this morning. I think it supported the promotion of that very charge that there was no adequate protection. If that is true, I think every member of the committee wants to get it clear. But as I say, I think that the evidence discloses that every reasonable protection against stock profiteering is provided in this contract.

By Mr. McGeer:

Q. You agree with that, Mr. Elliott?—A. I could go further and say it not only has reasonable provision but I think it has extraordinary provision; because you will not find it in any other contract—at least not to my knowledge, and all gentlemen can use their experience. I do not think any gentlemen will find that kind of clause or paragraph in any other contract. If anybody has, let us hear about it. It would be of interest.

By Mr. Slaght:

Q. Was it in the British contract?—A. Oh, no.

Mr. McGEER: It was not in the British contract.

By Mr. MacInnis:

Q. It was not in the contract when it was brought to the department?—A. It was not in the contract when it came to the interdepartmental committee.

By Mr. McGeer:

Q. Of course, it is just as well to remember that the government set up this interdepartmental committee to guarantee to the public of Canada that there will be no undue profits in anything that might come within the category of defence contracts.—A. That is right.

Q. And it was your job, as given to you by the government, to provide this protection?—A. Yes, that is true. It is also well to remember that the Department of National Defence had a member on the interdepartmental committee.

Q. And the contract came to you, with regard to these details, to be completed?—A. Well, it came to us primarily not to be completed, because we were not a drafting committee.

Q. But you turned yourself into a drafting committee?—A. Well, I would dispute that.

Q. What is that?—A. No. We did not turn ourselves into a drafting committee; far from it. I would not assume that responsibility. What we did do was—

By Mr. Homuth:

Q. You redrafted the contract?—A. No, we did not draft the contract.

Q. You redrafted it?—A. No, we did not redraft it. We would not admit that. Let me explain it, if there is ambiguity there. We were a committee, as Mr. McGeer has said, to consider contracts primarily that were referred to us, "when the Department of National Defence—and I am quoting from the order in council—considered that effective competitive tendering cannot be secured and to advise upon such principles and safeguards which the committee considers should be observed." That was our duty according to the order in council. We were not to redraft contracts. We were not to draft the terms that we thought should be in them. We were to suggest, and those charged with drafting were to put those suggestions into legal form. If in the suggestions we happened to dictate so directly that the suggestion in itself took almost the form of a complete legal draft, that is only incidental. I repeat that when I dictated that paragraph that night, sometime after midnight, I wanted to convey the idea to those charged with drafting as closely as might be. Therefore, I dictated it as it now is; but I did not consider myself a drafting committee or charged with the duty of redrafting. So I say to both of you, "No, we were not a drafting committee. We were only there to suggest—to use the language used in the order in council—the safeguards and principles that should be incorporated legally."

By Mr. McGeer:

Q. The point that does appear now is that the Department of National Defence negotiated that contract with the John Inglis Company, and before they could complete that contract it had to pass examination by the interdepartmental committee?—A. Because it was non-competitive; and that is why it was referred to us, because the order in council compelled it.

Q. Yes; and before that contract could be recommended to the Governor in Council for approval, it had to have the sanction and approval of the interdepartmental committee. Is that not correct?—A. Well, it had to have been before the interdepartmental committee. When you say "sanctioned and approved," I doubt that.

By Mr. Slaght:

Q. "Safeguarding" is the word used?—A. Yes, quite so. It does not go that far, and I would not want to assume that it did.

[Mr. C. Fraser Elliott.]

By Mr. MacInnis:

Q. It had to be reviewed?—A. Yes; after review.

By Mr. McGeer:

Q. Can you conceive of any contract being approved by the Governor in Council which did not have the approval of the interdepartmental committee?—

A. I would think it highly inappropriate, in view of the order in council existing.

Q. Yes?—A. I could conceive of it. But I repeat that it would be highly inappropriate.

Mr. DOUGLAS: Could we not stay on this clause we are on, Mr. Chairman? We are wandering to the interdepartmental committee, which is another field. I was asking a question the other day and left it in abeyance because I wanted to leave it until we had finished this question of the stock jobbing clause.

The WITNESS: I will be glad to go back to it.

By Mr. Douglas:

Q. Mr. McGeer just a minute ago asked the witness if this clause was the step which it took to protect against stock manipulation. I understood the witness to say "yes."—A. Correct.

Q. But it is also true, is it not, that the witness felt later on that that was hardly adequate provision, although it was the step that the interdepartmental committee took.—A. Did you say "highly adequate" or "hardly adequate"? I did not quite hear.

Q. That it was hardly adequate to protect against the things that Mr. McGeer had in mind.

Mr. McGEER: He did not say that.

The WITNESS: I would answer that by saying it is the most adequate suggestion that the committee found itself capable of suggesting. I do not know that you could even improve on the suggestion. I do not mean that as a question. That is a rhetorical statement. I do not think you could improve upon it when you sit down and think about the paragraph as a suggestion. Surely I could, if I had time,—as I said before the Davis Commission,—rewrite that; and as I used the words there, I could polish it up to express more intently and more clearly the suggested purpose. But I could not add to it except to clarify it. I rather think that is right, after considering it all these days.

By Mr. McGeer:

Q. Of course, there might be the possibility of polishing it out?—A. Out of utility?

Q. Yes.

Mr. DOUGLAS: I would not worry about that. Let us follow that up. There are two points that I wanted to get clear. One was as to whether or not this clause would cover the protection of the public; the second was as to whether or not it covers the 220,000 shares which I asked the witness about the other day. I should like to draw the attention of the witness to the evidence at page 958. The question was asked by Mr. Forsyth.

Q. Mr. Elliott, you used the word "stopper" in connection with this, and I presume you were referring to a clause in the contract. Have you the contract before you?—A. Yes.

Q. Would you indicate the number of the clause to which you were referring? Am I correct in assuming that you were referring to a clause as a stopper?—A. Oh, yes. That is correct. It is the second paragraph of section 1. Shall I read it?

Q. If you do not mind.

Then the witness proceeded to read it, but I shall not bother doing so now. Then continuing:—

Mr. DREW: That section obviously has no relation whatever to the 220,000 shares you have mentioned?

The COMMISSIONER: Of course it is subject to argument, but it is perfectly plain that that clause refers to the issue by the company and sale by the company. I am not stopping you, Mr. Forsyth, but I must tell you that I am still groping in the dark to find out whether the committee ever visualized the problem that there was a possibility or a probability that the then issue of 220,000 shares out of the total authorized of 250,000 shares might become the subject matter of trading on the public exchanges or in a private way as war stock. I want to know if the committee ever visualized that and, if so, what did they do?

By Mr. Forsyth:

You have heard the discussion and the question raised as to the possible disposition of the 220,000 shares of stock issued, as per the Dun and Bradstreet report. The possibility was mentioned in your cross-examination this morning of a further increased capital. The point now is: Did the committee visualize—to use the commissioner's words—dealings in the 220,000 shares already issued and which might be objectionable, from the public point of view? Is that a fair way to put it, Mr. Commissioner?

The COMMISSIONER: Yes.

The WITNESS: They visualized that and many other related matters of a similar character.

By the Commissioner:

Q. In what way did you deal with it?—A. By inserting in the paragraph which I have just read.

Q. That is your answer to the question?—A. I would—

Q. That is either the protection you took or it is not?—A. That is the protection we took after discussing it at great length.

Q. As a member of the committee you had it in your mind that that was sufficient protection for the problem which you say you envisaged?—A. When you say "sufficient protection," if I were writing that myself I would catch the ideas as we had them presented that night in the committee. I would write it out and I would polish it and repolish it until it would contain fully all our views and all my comprehensions as to the various ways in which capital could be sold to the public, either by writing up the present stock, increasing it and so on. So that when you ask me if that was completely my idea or the committee's, the answer technically is, no. We would have liked to have had time to polish and repolish it, but we had to pass it that night. I hope it carries the main idea of a means of stopping it, but technically I could not say that it is perfection.

Q. Whatever your thoughts were that night, they must be plain to you now that that clause does not affect or attempt to affect the sale of the then issued 220,000 shares?—A. Not the 220,000, no, but it would affect, I think, a split of them and issuing three for one or something like that. That is perhaps a question of interpretation.

Mr. FORSYTH: As a matter of fact, I do not know that I would agree with you, Mr. Commissioner, or with the witness on that. I think it is a subject for later argument.

The COMMISSIONER: I think it is as plain as day. I do not think there is any use splitting hairs as to what it says.

[Mr. C. Fraser Elliott.]

It seems to me, Mr. Chairman, in view of the statement made by the witness at that time, that we could come to the question of the interdepartmental committee later on, why there was not time, or as to why time could not have been found. But the fact does remain that the clause of protection that Mr. McGeer has referred to was not considered adequate by the witness at the time he gave evidence before the Davis Commission.

Mr. McGEER: Oh, that is not a correct interpretation of that at all.

Some Hon. MEMBERS: No.

Mr. SLAGHT: It is just the opposite.

Mr. McGEER: Just the very opposite.

Mr. DOUGLAS: He certainly said it was not sufficient protection.

Mr. SLAGHT: Just the opposite.

Mr. McGEER: On to-day's examination, the witness has said after mature consideration, "While I agree technically that it might be polished up, I do not think any more power could have been put in it than is already there."

Mr. DOUGLAS: I am not interested in what Mr. McGeer thinks about whether any more power could have been put in it. It is whether the witness thinks so or not that is important.

Mr. McGEER: I think that is a very indifferent attitude to take, because I think we surely all can hear the evidence and decide on that.

Mr. MACINNIS: Mr. Chairman, if the witness is not satisfied with Mr. Douglas' interpretation, I think it is for the witness to say that he is not satisfied and not for Mr. McGeer to say it.

The WITNESS: Well, of course, Mr. Douglas has read from the evidence of the Davis Commission; and as I followed him in the reading I certainly confirm exactly what I said before at the Davis Commission. I repeat what I said a little while ago, that I think the paragraph inherently in it has about all the protection any one can think about; but whether that protection is expressed in the most elegant and forceful way, I have some doubts. I intimated to Commissioner Davis that I would kind of like to rewrite it and perhaps polish it up. But I repeat that inherently it has in it the protection that we thought about. Whether the words are adequate to carry it out, I am not just sure, But I think they are pretty close to it.

By Mr. McGeer:

Q. When you say "inherently," you mean legally, do you not?—A. Oh, certainly. Let me state it again.

Q. Yes?—A. Because many of these gentlemen are not lawyers and they do not understand that cloak of legality. This is plain: we had an idea that we wanted to stop either the company or anybody else from so manipulating the shares of this company that they could make an undue profit from the sale of shares; and we put those ideas into this paragraph. I am satisfied with the first part of the paragraph, but whether the second part of the paragraph was entirely adequate to sustain the ideas we were thinking about, by a legal interpretation of these words, I repeat I am not sure. But I repeat what I said in the evidence, I would like time to repolish it. But we were there that night and told that the contract was going to be presented the next morning, and whether we—

By Mr. McGeer:

Q. I cannot see anything. I should like to know how you would improve upon it?—A. Well, I do not know.

Q. What you have said now is that you are not sure as to whether or not the wording of this second part of that paragraph is sufficient to carry out the intention of the first part?—A. Oh, we went over that in the first.

Q. Yes.—A. I am dealing with the thing in a very broad way. Do not keep the one thought of selling shares in your mind. We have dealt with that and the commission has dealt with it. We said, "No, that is not a breach." Now we are talking about generalities, as I explained, of taking all the shares and putting them in another company and making a real job of it. I say that cannot be done without consent; and if you do, you breach it.

By Mr. Douglas:

Q. I am dealing with the 220,000 shares. May I ask one more question?—
A. Yes.

Q. I think Mr. Slaght raised the point this morning and I just want to ask one question. Mr. Slaght raised the point a little while ago that there was innuendo or something suggested by people that perhaps sufficient protection had not been given to the public. I want to point out it is not innuendo, if I understand it correctly. Mr. Elliott can answer better than anyone else here. The commissioner himself was not clear as to whether the public interest had been protected. I want to just quote what the commissioner said on page 963. Mr. Geoffrion had said, "I should like to take up the question of the 220,000 shares of stock," and the commissioner said:—

I am very glad to have you ask anything further on that point because I could tell from the indications made by counsel that they were not quite in accord with my observations.

Mr. McGEER: What page is that?

Mr. DOUGLAS: Page 963.

The WITNESS: The middle of the page.

Mr. DOUGLAS: Continuing with the quotation:—

The evidence so far would indicate and this witness says he knew as a member of the committee that there were 220,000 shares of this company issued out of an authorized 250,000 shares.

This witness told us this morning of the set-up, with the assets of \$1,280,000. He said they worked out at about \$6 per share. All that is in the evidence. I am not saying that it is correct; I do not want to reflect on anything, but that is the witness's evidence of this morning. When I made my observation a few moments ago I noticed an expression on the faces of at least some of the counsel that would indicate that I did not understand the issue. However, it is abundantly plain to me. I am considering what a practical business man would do in dealing with a contract like this, having regard to the fact that he was acting for the government in connection with war contracts and was anxious beyond measure to prevent stock transactions in war contract companies. What would he have done? Would he have visualized the possibility of these 220,000 shares going out some way? Would he have asked who owned them? Would he have asked what control could be had over them? My only question to Mr. Elliott was: did he or did the committee visualize that probability or possibility, and, secondly, what steps were taken? Mr. Elliott said that he visualized it and the protection of the public interest lies in the clause he read. I would like someone to develop that further.

Mr. GEOFFRION: I am not appearing for the government; I am appearing for the company, and I hope to prove later on, by the company that no such thing as that has happened or is contemplated, whether or not any protection has been provided. No harm has been done.

The COMMISSIONER: No such thing happened?

[Mr. C. Fraser Elliott.]

Mr. GEOFFRION: No such thing happened. I will have to prove that, but I ask you, Mr. Commissioner, to wait. We are not presumed to be guilty until we have been proven guilty.

The COMMISSIONER: Oh, no; I am not presuming anyone is guilty.

Mr. FORSYTH: Everything that Mr. Drew choses to write must not be considered as gospel.

The COMMISSIONER: Oh, no, but assuming that the article is quite inaccurate, assuming that the magazine article is quite inaccurate, I still think it is within the scope of my commission which specifically states that I am to enquire into what steps were taken to protect the public interest. A total of 220,000 shares were issued and outstanding out of an authorized 250,000 shares. I think that a practical business man, acting for the government, would have taken some means of avoiding the possibility that those shares would become the subject matter of transaction on the public market.

Mr. GEOFFRION: I am inclined to agree with you, Mr. Commissioner, on the construction of the clause. I am not here to take part in any battle as to whether they should have put in another clause. I represent the company, and I am not bound to write the contract for the government. I can only say that I hope to prove that the shareholders are not doing it nor do they intend to do it.

Now, it seems to me that there is no matter of innuendo there. The commissioner himself was far from satisfied; Mr. Geoffrion himself seemed to assume that while the company had not done it, yet there was no protection there to prevent steps being taken that would have resulted in financial transactions on those 220,000 shares. That is what I want to ask the witness. I want to ask the witness if the clause that was inserted in a hurry at an early hour in the morning had in it sufficient protection, and adequate protection to prevent the very thing that Mr. McGeer has been talking about, stock jobbing and such.

Mr. ISNOR: Is there any question in your mind at the present time as to whether or not there was not sufficient protection?

Mr. DOUGLAS: I am not a lawyer to say?

Mr. ISNOR: You are questioning.

Mr. DOUGLAS: I am pointing out the commissioner, who is very much more competent than I am to say so, had doubts.

Mr. ISNOR: Is there any question in your mind now as to whether there was adequate protection?

Mr. DOUGLAS: Mr. Chairman, I submit my opinion in the matter would not have any more value than Mr. McGeer's. Mr. McGeer seemed to think that there was protection, but I would like to know what the witness' opinion is.

Mr. McGEER: Just a minute, I should like to get an answer. I think we should have that statement answered.

The WITNESS: I just did not want to interrupt. I shall be very glad to answer that question.

Mr. SLAGHT: I have been waiting very patiently here. May I point out something more adequate than the protection which has just been read to the committee? All that Mr. Douglas read indicates that the mind of the witness and the mind of the commissioner were directed solely to the one clause in question. Was it enough, or was it not enough? That overlooks the detailed evidence we had this morning. That, on top of the one clause which you properly pointed out and which has been discussed back and forth, with very important safeguards, gives ample protection. You have the \$267,000 profit limitation which Mr. Elliott has made perfectly clear is a wonderful safeguard

against anybody going out and marketing stock without filing a prospectus which shows that limitation. You have in addition to that this safeguard, it has to be approved by the Securities Commission of the province of Ontario, and those of us who live there know that during the past few years that has been a very real and rigorous safeguard. So let us not just join with the commissioner and witness in a discussion of one particular clause and feel that by doing that we have solved the problem as to whether this contract is a good contract, in as much as looking at all the safeguards it does protect the public. I believe Mr. Douglas will agree with that, and I have one question to ask—

Mr. MACNEIL: Can we get an answer?

Mr. SLAGHT: Yes.

The WITNESS: I think the question was—and I want to restate it—because there was so much before it, that I did not catch exactly what you want. As I understand what you want, it is this: is this paragraph adequate to protect the public interest, in my judgment, against stock manipulation? Is that the question?

Mr. DOUGLAS: Yes.

The WITNESS: Yes.

By Mr. MacNeil:

Q. In dealing with stock transactions, Mr. Elliott, is it not fair to assume that brokerage houses in addition to the maximum profit of \$450,000 on the two contracts might also have some justification to take into consideration the possibility of future contracts? This company is in a peculiarly advantageous position. There is the suggestion that they may manufacture Enfield rifles. There is that suggestion. They now have control of the Ross rifle machinery, of which there are no duplicates in Canada as regards the rifling of barrels and so on.—A. Yes.

Q. Could they not quite fairly represent to the investing public that other profits might be made by the company in addition to the \$450,000?—A. Well, the question in the first part was, is it that profits beyond the \$450,000 may be the basis of stock selling, a potential profit beyond. Is that possible? And your last sentence was could that be fairly stated by the vendors of shares. Now, as to the first part, is it possible that there may be more profit potentially, yes, that is possible. The second part of your question was, could that fairly be stated? My answer to that is, I do not know; I would not like to answer on that.

Q. Another question: if you agree that there has been no breach of the contract with respect to the issue of 220,000 shares, does it not follow then that this clause did not actually protect the public against an inflation of profits with regard to stock transactions?—A. My answer is no, but I should like to ask you to develop that. I should like you to develop why it does not, as you see it, and then I will be able to agree or disagree with it.

Q. It has been given in evidence this morning that there was no breach of the contract.—A. Correct.

Q. Under the terms of this particular section.—A. That is correct.

Q. In regard to the issue of 220,000 shares.—A. Yes.

Q. Does it not follow that this clause in its present form does not offer adequate protection?—A. No, for this reason, the 220,000 shares were issued before this contract was entered into. That is the first point. Secondly, the sale that did actually take place, on which evidence has been given, was of such a character as not to convey to the mind of one who surveys the fact of selling that it was a substantial scheme to take from the public the future inherent profit in this contract.

[Mr. C. Fraser Elliott.]

Q. Was there not an actual profit made when the value was increased from \$1 to \$7.50?—A. Not a single cent of profit made. You see, I own this book. I put it in my assets at \$1. I rewrite my books to-morrow and I put it in at \$6. I cannot trade with myself. I cannot make a book profit. I have to do it with somebody else. This company own all the assets at one time. If they have a value and they rewrite in their books a different value, there is no angle of profit in that; you cannot trade with yourself.

Q. Was it not within your knowledge that a prospectus was issued by two different brokerage houses indicating the value of the shares at \$7.50?—A. At the time of the contract, no, it was not.

Q. Was it not brought to your attention that these shares were issued, I believe, as street certificates over which it is very difficult to exercise any form of control— —A. At the time of dealing with the contract, no.

Q. During the hearing before the commissioner?—A. Well, it was in the evidence, whether I gathered it then or later, it did not interest me very much, and I cannot answer specifically, but when it ultimately came to my knowledge in point of time, I do not know.

Q. I have another question to ask. You understand the situation under which you drafted it? You were working under great pressure— —A. Quite so.

Mr. McGEER: You did a pretty good job on that, too, didn't you?

The WITNESS: Thank you.

By Mr. MacNeil:

Q. If you had the opportunity to redraft this now, would you not draft it in different terms from those we now find in the contract?—A. Different in—

Q. Having heard the evidence brought out before Commissioner Davis?

Mr. SLAGHT: He answered it a dozen times.

The WITNESS: I will answer it again. Ask it two or three times, it is all right. The substance of the contract I might try to rewrite in different words, but whether I would actually take out words now in view of the praise I just had, I doubt very much.

By Mr. MacNeil:

Q. But there is doubt. There was certainly doubt in the mind of Mr. Commissioner Davis, and there was evidently doubt in the minds of other people. Could there be any conceivable objection to redrafting this clause? For instance, when there was doubt with regard to the maximum overriding profit this letter signed by the John Inglis Company was attached to the contract. Now, could not a similar procedure be followed with regard to the doubt which exists in regard to stock transactions and a change made in the contract which would absolutely have eliminated all suggestions of doubt in the matter?—A. No, I really do not think you could draft that kind of clause to eliminate wholly all doubt, because you are drawing a clause against a multifarious set of circumstances that the ingenious minds of lawyers, stock brokers and all such people will—

By the Chairman:

Q. And bankers?—A. And bankers. I stand corrected on that. This set of facts are general in my mind, but you cannot possibly draft a contract that eliminates all doubt in respect of all possible moves which can be done.

By Mr. MacNeil:

Q. Could you not secure it from the John Inglis Company in the form of an undertaking that there would be no stock jobbing with regard to these shares?—A. The answer is technically, can you secure it? Certainly, but what is the use of it?

By Mr. McGeer:

Q. Would they enter into it?—A. I say, can you? You can, subject to agreement, yes.

Q. If they agreed with you?—A. They agreed to this clause. I would say substantially that they agreed to that clause which was in that form. Whether they agreed in this form or another form, what is the difference?

Q. This is a very different clause.—A. Really we are now talking about might have been. I say, in the subjunctive, we could do almost anything if we have the nerve.

Q. May I just clear up this one point? What we have been dealing with, Mr. Elliott, is the general discussion and consideration of the terms of the contract during the course of the taking of evidence and prior to argument.—A. Yes.

Q. The commissioner did make a finding on the terms of this contract, if you recall the report. I will recall it to you by reading to you from page 49. This is what the report says:—

The contract is not for a fixed sum; it is on a cost-plus basis. It is admitted that we do not know how much the guns are going to cost. There are, of course, adequate powers of inspection, supervision and control vested in the department under the contract and with the estimates from Enfield of what the guns there are costing it should be possible to keep actual costs here well within bounds.

No substantial objection can be taken in my view to the provisions of the Canadian contract. . .

Now, that is what the finding of the commission is, is it not?—A. Oh, yes, there it is.

Q. I ask my friend to show in any particular clause a criticism of the terms of the contract in Mr. Davis' finding?

Mr. SLAGHT: There is not any.

Mr. McGEER: There is not any, so that—

Mr. MACNEIL: Did he not give it to us on a basis of comparison?

Mr. BERTRAND: He says there is no substantial objection.

Mr. McGEER: When a man of the Hon. H. H. Davis' standing gives to a contract the finding that no substantial objection can be taken to the provisions of the Canadian contract, I believe he pays a high tribute to the man responsible for drafting that contract.

Mr. DOUGLAS: Mr. McGeer stops in the middle of a sentence; he stopped, as a matter of fact, at a comma.

Mr. Justice Davis says, and I continue to read:—No substantial objection can be taken in my view to the provisions of the Canadian contract, though in the absence of any competitive bids or terms of manufacture I am unable to pass upon the substance as distinct from the form of the contract. It is important, of course, that the contract be a good and businesslike contract; but what is more important after all is whether the procedure adopted in making the contract was that best calculated to protect the public interest and to secure the confidence of the people of Canada that there would be no improper profiteering in the private manufacture of war armaments for the defence of the country.

That is a question upon which the government and parliament, in the light of the evidence brought before the commission, must pass.

That, of course, puts a very different interpretation upon it than merely reading half a sentence.

[Mr. C. Fraser Elliott.]

Mr. McGEER: What I am pointing out is this: he says in relation to this contract as to its form, that there can be no substantial objection to it. We have examined Mr. Elliott most carefully this morning to ascertain whether more protection could have been embodied in this contract than it contains, and his answer is no. Now, there is a procedure available. You do not agree with that; but if you have the proper procedure in your mind, then there must be some evidence produced to this committee that will contradict Mr. Elliott's evidence as being incorrect, because if it stands uncontradicted, then this committee can have no option but to accept that evidence.

Now, of course, I know we can arbitrarily—

Mr. NEIL: We have not yet reached the end of the enquiry.

Mr. MACINNIS: As far as Mr. Elliott's evidence is concerned, he has stated that at the time available to them they had done the best job possible, and we are not finding any fault with that.

Mr. McGEER: Oh, well, I know, but that is the line my friends always take. But we have gone further than that now. We have said that in the light of all the time you have had since do you think you could make this contract stronger? His reply was, "I could have polished up the thing but I do not think I could have put any more power in that provision of the contract." He stated that.

Mr. MACNEIL: He said there would be no particular use in doing it.

Mr. McGEER: Oh, no. He said that this contract contains all the powers that he, as an experienced administrator of this particular kind of thing, could develop. Be fair.

Mr. MACINNIS: We are fair, absolutely fair.

By Mr. Slaght:

Q. Mr. Elliott, just before we leave this phase of the matter, may I ask you this: Did the British war office, prior to your deciding that as far as you were concerned that night you had the contract in final shape, cast any doubt upon the safeguards and the proprieties of the contract as far as they were concerned?—A. Oh, on the contrary. There is a letter if I can locate it from Sir Harold Brown.

Q. Yes.—A. Which states that—

Mr. McGEER: It is exhibit 227 and 230.

Mr. SLAGHT: Do not bother now with that, Mr. Elliott.

Mr. McGEER: As a matter of fact, I have that letter in my brief and I should like to deal with it when the man to whom it was written is on the stand here.

The WITNESS: Here it is. If I may just carry on the evidence and read that letter. It is Sir Harold Brown's letter of the 11th of February, 1938, addressed to Colonel La Fleche, and he states:—

We have been greatly assisted by the excellent way in which the two draft contracts have been drawn up. They have been discussed clause by clause and some minor amendments intended to make the intention of the parties more clear have been agreed with Hahn and also one amendment of some importance.

By Mr. Slaght:

Q. That is dated in February, is it?—A. February 11, 1938.

Q. When did you conclude your contract late at night?—A. 17th and 18th of March.

Q. Was that a month before they had apparently clause by clause gone over the contract?—A. That is so.

By Mr. McGeer:

Q. And your contract too?—A. Yes; they knew about both.

By Mr. Slaght:

Q. Have the British war office at any subsequent time thrown out any innuendos or slurs or complaints of any kind as against their full protection under the contract that has been made?—A. Certainly not any to my knowledge.

Q. There is not a word or a line or a suggestion of that from the day the contract was made up to the present time?—A. I just read you the contrary to what you indicate.

By Mr. MacInnis:

Q. We are discussing now not the protection of the British war office but the protection of the Canadian public?—A. Quite so.

Mr. MACINNIS: Well, there is no point in this.

Mr. BERCOVITCH: The British public have to be protected too.

Mr. McGEER: That statement surely warrants a reply.

Mr. MACINNIS: It will get a reply, there is no doubt about that.

Mr. McGEER: But to say that a contract that has not only been approved but highly commended by the British war office is not an indication that the contract is sound in all its aspects is surely casting a very great slur upon the director of contracts in the British war office.

Mr. MACINNIS: No, no.

Mr. McGEER: Because the assumption must be that although the director of contracts of the British war office has commended the terms of this contract they are not adequate to protect the Canadian public against, what is it, sin, fraud, corruption, pernicious patronage, innuendo and excessive war profiteering? When we look at this thing through the eyes of the British war office we see it a little differently than the way in which it is viewed from other places.

Mr. MACINNIS: Mr. Chairman, it seems that Mr. McGeer is going to drown this committee's work in a sea of words. Surely when the commissioner who was appointed to investigate this matter cast a doubt on the protection that the public had a member of this committee is entitled to do the same without Mr. McGeer having to get up and give a fifteen minute talk on it.

Mr. McGEER: The talk was not fifteen minutes, it was less than two. But that is in line with the type of exaggeration that the honourable gentleman continually resorts to. For instance, we had an example of that in the trip made to Toronto. The cost was going to be \$2,000, and it turned out to be \$53. I spoke for two minutes and, according to the honourable gentleman, I talked for fifteen minutes.

Mr. MACINNIS: How do you know what the cost is going to be?

Mr. McGEER: We assume that the accounts are in.

Mr. MACINNIS: You assume.

Mr. McGEER: I think we shall leave it at \$53 and time will confirm it.

Mr. MACINNIS: Time will deal with these matters.

Mr. McGEER: It is all very well to say that the commissioner cast a doubt. What my friends are doing is to pick out certain portions of the evidence and discuss prior to a finding—

Mr. MACINNIS: We are not.

Mr. McGEER: I read what I thought was a finding of the commission with regard to the terms of the contract. We can, of course argue this thing a little later on, but, as a matter of fact, right from the very beginning, Mr. Elliott, the terms of this contract were under review by the British war office, were they not?

[Mr. C. Fraser Elliott.]

The WITNESS: Well, I should not speak on that. I am told so, but that would be for those—

By Mr. McGeer:

Q. You know, as a matter of fact, do you not, that the first proposed draft of the contract was handed by Hahn to Colonel La Fleche in the summer of 1937? That is on your interdepartmental records?—A. Yes.

Q. And the first thing that Colonel La Fleche, as deputy minister of national defence, did with that draft was to hand it to the British war office for review and consideration?—A. I think that is correct, but I suggest that the man who did that should be the one to speak.

By Mr. Bercovitch:

Q. Mr. Elliott, am I right in saying that this contract is the first and only government contract to contain a clause restricting the rights of the contracting company to sell its shares?—A. I think so.

The CHAIRMAN: Gentlemen, before we adjourn, may I have the permission of the committee to return to the treasury department the vouchers that we have held now for two weeks? They are vouchers for the accounts contracted up to, I think, the end of March?

Mr. MACNEIL: Could we let them stand for a couple of days, Mr. Chairman?

The CHAIRMAN: Yes, we shall let them stand until Thursday.

Has anyone any objection to adjourning until Thursday at 11 o'clock? If that is agreed—

Mr. MACNEIL: May I give notice of a question to Mr. Elliott? I do not intend to follow it up now. I should like to know the rate of return on the capital invested by the contractor. I should like to know the net return on the capital outlay, and I should like another analysis of the situation from the standpoint of investments by the contractor.

The CHAIRMAN: There is just one other matter with which I should like to deal. Do the members of the steering committee feel that we should meet sometime to-morrow? I would suggest, if it is agreeable to the members of the steering committee, that we meet in the secretary's office at half past four to-morrow afternoon for a few minutes. The secretary will get in touch with each member of the steering committee.

The committee stands adjourned until Thursday at 11 o'clock.

(At 1 p.m. the committee adjourned to meet again at 11 a.m. on Thursday, April 20, 1939.)

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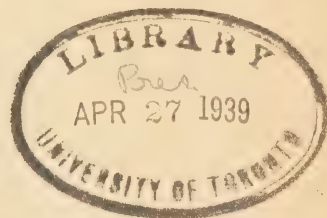
SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 9



Thursday, April 20, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, April 20, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Beaubien, Bercovitch, Blanchette, Brooks, Brown, Douglas (*Weyburn*), Factor, Ferland, Fleming, Fraser, Glen, Golding, Green, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Marshall, Slaght, Stewart, Stirling, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance.

Examination of Mr. Elliott was continued.

Upon request made by Mr. McGeer:

Ordered,—That all documents filed with the Committee by witnesses, or produced by order of the Committee, be numbered as exhibits.

Complying with the request made by Mr. MacNeil at the last meeting of the Committee, Mr. Elliott filed, in respect to the Bren machine gun contracts:—

Exhibit No. 8: Rate of return on the capital invested by the contractor.

Exhibit No. 8A: Net return on the capital outlay.

At the suggestion of the Chairman:—

Ordered,—That the clerk procure from the John Inglis Co. Limited a statement of the capital invested showing the capital employed in the manufacture of Bren machine guns and the capital employed in respect of the company's commercial business.

The clerk tabled:—

Exhibit No. 9: Statement of salaries (John Inglis Co. Limited) approved by the Department of National Defence as chargeable to the Bren machine gun contracts.

Exhibit No. 9A: Statement of salaries (John Inglis Co. Limited) approved by the Department of National Defence as chargeable (a) to both Bren machine gun contracts and (b) to the Canadian contract.

At the suggestion of the Chairman after consultation with Mr. Green:—

Ordered,—That Exhibit No. 9A, with names and occupations (except of four senior executives) deleted, be printed as an appendix to this day's Minutes of Evidence.

The Committee adjourned until Tuesday, April 25, at 11 o'clock a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 375, Ottawa April 20, 1939.

The standing committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, as there are no preliminaries this morning we can proceed with the witness unless any member has something he wishes to bring up.

Mr. C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, recalled.

The WITNESS: Mr. Chairman, at the close of the last meeting Mr. MacNeil gave notice of a question. It is contained in the record at page 241. The question was:—

I should like to know the rate of return on the capital invested by the contractor. I should like to know the net return on the capital outlay, and I should like another analysis of the situation from the standpoint of investments by the contractor.

You will observe that there are two questions there. The first is the rate of return on the capital invested by the contractor. I shall deal with that question first and then I shall go to the next question, the net return on the capital outlay.

The first question, as I observe it, is more narrow than the second question, that is, the net return on the capital invested by the contractor; the second question is the net return on the capital outlay. That would include also the government contribution. So in dealing with the first question, the rate of return on the capital invested by the contractor, before I distribute a short summary which I have made of it, I want to say that the question is, first of all, an estimate, and, secondly, it is at the beginning of the contract and we appreciate that the capital flows in as the contract moves forward. So I am willing to say at once before we come to this that my own statement of the rate of return on the capital invested might be varied by other minds believing that you should have a greater infusion of capital or a lesser infusion of capital.

Let me make it a little more specific by stating that I presume, lest some become alarmed, although I do not join in the presumption myself, that some would say the value of the plant and equipment, giving it a fair value, would be the capital employed in this contract, and the fact that a purchase had been made of the plant and buildings at a very low figure would not represent the true capital that is in this business.

Now, I say that is a presumption that some might take, but my whole point is that I do not want to be dogmatic about it, and with that introduction, if our assistant will distribute the statement on the rate of return on the capital invested by the contractor, which is quoted at the head of the sheet, I shall go over it with you.

By Mr. Isnor:

Q. When you speak of the value of the plant you speak of the market value at the present time?—A. You will remember that the company had an appraisal, and presuming that the appraisal company acted as reasonable men skilled in their line of business, they put on a value of over \$1,000,000. But that was reflected by share capital—

By Mr. Homuth:

Q. Yes, but when was the appraisal made?—A. The exact point of time I do not know, but I would say it would be before March, 1938, before, indeed, December 31, 1937, because that is the balance sheet that Dun and Bradstreet gave us, and in that it shows the written up value and that value was based on the appraisal.

Q. Yes, but I think the evidence shows, does it not, that the appraised value was made when it was a going concern, not after the place had closed down and gone into the hands of a trustee?—A. Mentioning the date I did, the 31st of December, 1937, the appraisal was certainly before this contract—

Q. Quite.—A. —became a thing in being. But whether it was after the change in name of the company or immediately after the assets were taken over from the John Inglis Company by the interim parties, I do not know.

Mr. SLAGHT: What difference would it make if it were before the making of this contract? Is that not the point?

Mr. HOMUTH: I am making the point that the appraisal, as set out in the evidence, I think, was an appraisal made when it was a going concern. Is there any evidence to that effect?

Mr. MCPHEE: That is one of those comments that goes to the country when there is not one tittle of evidence to support it.

Mr. McGEER: Not one tittle of evidence to support it.

The WITNESS: The point I was addressing my mind to was, what is the capital brought to bear upon this company? And I am saying that the persons skilled in making appraisals said it was worth over \$1,000,000. The question is, is that the capital that is brought to bear on this contract, or is it the actual each investment even though it was bought at a very low figure? Is that the capital? I am not dogmatic on the matter, and whether the appraisal was made very early in the proceedings or later does not touch the question. How would you approach the question of, "What is the capital invested?"

By Mr. Green:

Q. In connection with the appraisal how was the figure of \$280,000, which is contained in the contract as the value of the buildings and equipment, arrived at? That will be found on page 8 of the contract.—A. It was arrived at in this way: By exhibit 56, which is a letter from Major Hahn dated the 1st of March, 1938, he told the committee that the cash invested in the business, to acquire the business, was as follows: Actual cash, \$160,465; additional cash commitments, \$189,535 and a mortgage assumed of \$150,000, making a total of \$500,000 for those three items. The balance sheet submitted by Dun and Bradstreet showed that in the company were the following assets: Cash, \$99,970; accounts receivable, \$20,000; inventory, \$9,500, making a total of \$129,470, which are, we will say \$130,000 in round figures, the quick assets of the company.

Q. What is the date of that statement from Dun and Bradstreet?—A. It is in exhibit 56 which was submitted to the interdepartmental committee in a letter from Colonel LaFleche dated the 14th of March, 1938. In that letter he quoted what I am referring to as Hahn's letter of the first of March. Those quick assets of \$130,000, less the accounts payable of \$10,000, leave \$120,000, which, if you take that sum out of the \$500,000 that I mentioned as cash invested, leaves \$380,000. To get the value of the buildings, the \$280,000 which you mentioned in opening your question, you take off the value of the land. The interdepartmental committee arbitrarily set that at \$100,000 value. Taking that \$100,000 out of the \$380,000 leaves \$280,000, and that is the figure which we established as the value of the depreciable assets for depreciation purposes.

[Mr. C. Fraser Elliott.]

Then, again, carrying it on a little beyond your question, that value is apportioned to the appreciable assets that are actually used in making the gun. That means a portion of the plant.

By Mr. Isnor:

Q. But only machinery and equipment at \$280,000?—A. No everything of a depreciable character.

By Mr. Green:

Q. That covers buildings, machinery and equipment?—A. That is right.

By Mr. McGeer:

Q. And of course in the appraisal statement of over \$1,000,000 the land was not included? The total value of the whole plant including the land would be considerably more. The evidence was that this is the appraisal on machinery and assets that were kept and maintained in perfectly good condition.

By Mr. Green:

Q. Is it fair to state that the interdepartmental committee took the value at \$280,000 and the appraisers took it at \$1,000,000?—A. I think that is fair to state as an actual thing, yes.

By Mr. McGeer:

Q. The cost value was \$1,900,000, I think, and the appraisal value of machinery and buildings was \$1,300,000?—A. I do not think the cost value for the plant was \$1,000,000 in the sense of what they paid the old company or the bondholders of the old company.

Q. What I am saying is that the cost to the John Inglis Company of putting in the plant and the buildings had originally been \$1,900,000?—A. Oh, the old company?

Q. Yes.

Mr. HOMUTH: Yes, certainly.

The WITNESS: Perhaps so; I do not know.

By Mr. McGeer:

Q. But it was appraised for insurance purposes by the trustee—

Mr. MACNEIL: In 1929.

By Mr. McGeer:

Q. —at \$1,300,000. The machinery was kept in good repair?—A. Yes.

Mr. HOMUTH: We have no evidence as to that.

By Mr. Green:

Q. Mr. Elliott, the position was that the interdepartmental committee considered \$280,000 a fair figure?—A. Certainly. I would answer that "Yes" because that is the value we finally determined upon. But I should like you to analyse the fairness of our own judgment because I have explained to you that the cash they put into this business less the quick assets that they already purchased by that money, less the value of the land, left, therefore, the depreciable assets on the cost basis exactly what we gave them.

Q. What did they pay for the plant?—A. \$250,000.

Q. That includes plant, equipment and everything?—A. Right. And after they bought it they put in certain moneys. If you will follow me to the statement which I have put before you you will observe that I quote the

question and I have done that purposely, because you might go far afield and I am just technically answering what the question was. We did have Hahn's letter dated the 1st of March, 1938, which will be found quoted in the same exhibit, exhibit 56, in the interdepartmental committee's letter of the 14th of March, 1938. In Hahn's letter we are advised that the capital invested by the contractor was \$500,000, made up as follows, and I am reading from the letter: Actual cash invested to date by the present shareholders \$160,465. Secondly, and again reading from the letter: Additional cash capital committed for by present shareholders to be provided prior to the manufacture of the Bren gun, \$189,535. Bondholders' interest mortgage, \$150,000. That makes \$500,000 which was put into this business in that manner. Now, if we take $\frac{1}{6}$, because the contract is a six-year contract and presumably the profits would be prorated over each of the six years, $\frac{1}{6}$ of \$267,000 is \$44,500. But there is a mortgage which bears interest at six per cent on the \$150,000, which is \$9,000, and inasmuch as we tried to get the return on the capital invested we have to take out the costs on the capital they had, which is \$9,000. That cost, incidentally, is not allowed in the terms of the contract, as I explained. But we are getting a little outside of the contract and the question was, What is the return on the capital invested? Therefore we take out what they have to pay for their capital of \$9,000 and that leaves \$35,500 as the annual profit to the contractor.

Income tax on that is at 15 per cent or, in other words, \$5,325. So that he has left as his return on the capital invested \$30,175, which is 6.035 per cent of the capital invested. But that takes in only the \$267,000; therefore we should go to the \$450,000 which the contractor makes on the two contracts because I think some gentlemen would think that proper. Therefore, one-sixth of \$450,000 is \$75,000, and going through the same procedure as above we get his net annual yield, \$56,100, which is 11.22 per cent on the capital invested. Now, the foot-note is, there might also be considered as capital arising in the course of the contract, in addition to the \$500,000 above, the additional working capital guaranteed of \$100,000 making a total of \$600,000 capital invested. And if that be acceptable, then on such basis the return would be 5.03 per cent relative to the \$260,000, or 9.35 per cent relative to the \$450,000, annual return to the contractor on his invested capital.

By Mr. Brooks:

Q. On this capital investment they are carrying on other business besides the Bren gun. Of course, we are only taking into consideration the Bren gun contract. There are other contracts they are carrying on?—A. They are running a general contracting business.

Q. Surely.—A. You will observe again, as I said, I am dealing with the question in a big way, and if we take it broadly we cannot go into too many fields. You are just indicating one of them. The question was in connection with this contract, and the answer I have given applies to that.

Q. The Bren gun naturally is not using all of the capital, other activities are using part of it as well?—A. Unquestionably; but observe this, in this contract we are assuming that he is going to make \$267,000. Rejections might make it less. The other contracts to which you refer might imply that he cannot make a profit on that. He might or he might not. However, I am not going into that phase of it at the moment.

By Mr. Green:

Q. If he does not make any profit on his commercial business then this other contract would carry the load?—A. In discussing that the other day I agreed on that.

[Mr. C. Fraser Elliott.]

By Mr. Brooks:

Q. The Bren gun contract would be carrying the whole load, would it not?—A. You would have to explain more fully what you have in mind when you say the Bren gun would carry the whole load.

Q. You see, if the Bren gun is not a success he will not make any money out of the capital invested?—A. My assumption is that this will be a successful venture.

Q. I am just assuming that the Bren gun would be more successful than the commercial activities; in that event the Bren gun would be the activity which is carrying the whole load?—A. That is correct, if the Bren gun is successful.

Mr. SLAGHT: Well, if the Bren gun is not successful and the other is successful that will be carrying the whole load. It does seem to me to be a waste of time speaking about things of that kind.

Mr. BROOKS: How can it be anything but a successful venture?

Mr. SLAGHT: Because, if there are sufficient rejections they will certainly lose.

Mr. HOMUTH: There is no use in our talking about rejections until we have someone here who knows something about the manufacture of the gun. In connection with percision steel, anyone who is concerned with it knows that this gun, for instance, is made up of so many parts. They can't afford to have rejections, and rejections are a very very slight thing.

Mr. McGEER: There is no evidence of that.

Mr. HOMUTH: We are now talking about the return that may be made on the investment.

Mr. BROOKS: We all know that a machine gun is made up of a good many parts, and while a little part costing a few cents may be rejected the whole Bren gun is not going to be rejected because there is one small part not up to standard.

Mr. McPHEE: How are we going to know that? Don't you think we ought to wait until we have someone here who is competent to give us the facts?

Mr. MACINNIS: I do not want in any way to curtail discussion, but I would suggest that we return to an examination of the witness. If we go on in this way we may find ourselves losing a good deal of time.

Mr. McGEER: I would point out to the hon. gentleman what Mr. Elliott pointed out in discussing this thing, that rejections were a very important part. The assumption—if you are going into the realm of assumptions—the assumption was raised by the witness that the question of rejections would be important.

Mr. MACINNIS: I do not think he did that.

Mr. McGEER: He did. The record is clear on that. What he said is this, when you assume that you are going to make for a certainty a profit of \$267,000 you are completely neglecting the question of rejections.

Mr. MACINNIS: The question of rejections was raised somewhere else, not by the witness.

Mr. McGEER: I am open to correction on that. What I want to point out is that there was no division of the rate under consideration. I wish to examine the witness on that particular feature of it.

By Mr. Green:

Q. If we could go back to this statement now. I think it would help if Mr. Elliott went over these figures. Now, for instance, the cash investment of \$160,465; can you not divide that, Mr. Elliott, between the commercial division and the Bren gun division?—A. As I explained, the way that figure came there was that the committee was negotiating with Hahn, and we said to Hahn what

is the cash invested in this company? Our mind at that time did not go to how much did you invest in this particular contract, or how much of that investment goes into the other commercial contracts; our question was, how much did you put into this business.

Mr. MACINNIS: Hear, hear.

The WITNESS: We were told by letter that it was \$160,465. Now, your question, if I may retrace it is, could not that money be used for commercial as well as this contract; if that was the question the answer is yes.

By Mr. Green:

Q. But you went into considerable details in checking over the Bren gun contract?—A. Oh, yes.

Q. From having made that investigation could you not tell us approximately how much cash was put up for the Bren gun part of the company's work?—A. In examining the contract I could not say how much would be required in cash. We just asked this question; how much did you put into the company to do the job.

Q. Would it be fair to say that at least one-half of that amount would go to the commercial division?—A. I could not answer that. I do not know. I do not think anybody would know that. I could not answer.

Q. How was that cash supplied; where did it come from?—A. It came from the shareholders.

Q. Is that all prior to the contract?—A. Yes.

Q. Did you check to see that that amount had actually been invested?—A. We believed the evidence submitted without further checking.

Q. Has there been any check since?—A. I understand so, I believe this is all paid in.

Q. What official would know that?—A. One of the National Defence people on the contract I imagine would know that. The best witness would be Hahn himself.

Q. What about the cash commitments; what do they cover?—A. \$189,535, which was the commitment for share capital which the purchaser had undertaken—that also I understand is all paid up. This is subsequent evidence, as a matter of fact, and I think you should get Mr. Hahn on it; but I am informed that it is all paid up except \$19,000—in round figures.

Q. This \$189,535 had not been paid into the company at the time the letter was written, the 1st of March, 1938?—A. The statement says, the cash committed for. It was a binding contract.

Q. You do not know what percentage of it was for the commercial division and what percentage was for the Bren gun?—A. I do not.

Mr. HOMUTH: In view of the fact that the government supplies all the machines, tools, dies and everything in connection with the contract—I think the other day you answered a question when I said that the only money then that the Inglis company would have to invest in the plant for the manufacture of the Bren gun was the new building which they erected in which the Bren gun is being made?

The WITNESS: I would say, substantially, that is correct.

By Mr. Green:

Q. The figures do not indicate how much of these different items went into the Bren gun division and how much went into the commercial division. Considered from that angle your whole basis of percentages would be changed, would it not, because you are only dealing with the profit of the Bren gun there?—A. You see, the question was what is the net return on the capital invested by the shareholders in this company that they will get out of this

contract, and that answers the question I believe as best it can be answered. You now say, can we split this capital invested into that which would be used in relation to commercial contracts and that which would be used to further the Bren gun contract. I ask you to consider the multifarious contract in any manufacturing organization and consider answering the question as to how much of the capital related to this contract, this contract, or this contract. I really think you could not answer the question. The capital is a covering whole that in all its parts is really essential to place yourself in the position of performing any contract however small or however large.

Mr. GREEN: I do not think there is anybody on this committee who visited the plant but would support a statement to the effect that at least 50 per cent of this investment would be used for the commercial division.

Mr. McPHEE: There is no way of ascertaining that.

The WITNESS: I could not comment on that.

Mr. GREEN: Could you give us a similar statement on that basis, that is, assuming that the basis was half commercial and half Bren gun.

Mr. McGEER: I wish to register a strong objection to that.

The CHAIRMAN: I do not think—

Mr. McGEER: I am raising a point of order. Just a moment, please. Now, Mr. Chairman, we have an inquiry here before us which is not an inquiry into a hypothetical theoretical possibility as to what might be done, because we are dealing with the existence of a contract which deals with a specific operation. To say that this committee is going to take up its time investigating arbitrary divisions of capital as between various operations of the John Inglis Company when there is no evidence at all to support the conclusion that that division of capital is either correct or incorrect is to go far beyond the limits of proper inquiry. Now, I have no objection at all to the most complete investigation on the facts as they can be established, but if this committee is ever going into the realm of such assumption as the member for Vancouver South (Mr. Green) has now propounded I have at least five hundred similar assumptions in my mind that would need to be investigated and presented. For instance, and I cite this as a reason for the ruling which I think you should make, I would propose the assumption that on the rejections a loss of the whole profit is going to be suffered by the company, and then there would be no return at all. Now, there is just as much justification for that kind of an absurdity as there is for the assumption that 50 per cent of the working capital is to be employed in one section of the work and 50 per cent in the other.

Mr. GREEN: Mr. Chairman, I submit with all deference to my good friend from Vancouver-Burrard (Mr. McGeer) that my request from Mr. Elliott is a perfectly fair and reasonable one. This statement which Mr. Elliott has handed out to-day is obtained for the purpose of showing what return Hahn is going to get on the capital invested.

To arrive at that figure he deals, so far as profits are concerned, exclusively with profits on the Bren gun division; but when it comes to the investments, in order to show the effect of making the investment that much bigger, he includes the total capital investment, which is obviously inaccurate and unfair, and there could not be any more hypothetical statement, I submit.

Major Hahn told us at the plant that the commercial division was equally important, in fact more important than the Bren gun division. We know from the set-up of the buildings that are being used there that the commercial division is using far more buildings than the Bren gun division. I believe the percentage might not be accurate but I believe it will be only fair to this committee, in addition to having a statement here on a basis of all the capital investment being put in the Bren gun division, which is obviously inaccurate,

to have a statement based on half of the capital investment going to the Bren gun division and half going into the commercial division.

Mr. GOLDING: Why half?

Mr. GREEN: Take any figure you like.

Mr. SLAGHT: Ninety-nine and one.

Mr. GREEN: Well, now, do not be ridiculous. My learned friend from Parry Sound was not at the plant when we visited it. It might be put at 60 per cent or 40 per cent; I suggest, for the sake of letting us have a statement to compare with this statement that Mr. Elliott should make one out on a basis of a 50 per cent division.

The CHAIRMAN: May I suggest that you come back to your original question and ask the witness if he can do that. I believe that was your original question.

Mr. GREEN: He can do it; it is simply a matter of dividing items in half.

Mr. SLAGHT: Just before you make your ruling, Mr. Chairman, may I say the gentleman is not aware that I have been at the plant and have been through the plant very carefully. I did not have the pleasure of being there with him—

Mr. GREEN: He did not go with such good company as the rest of us.

Mr. SLAGHT: That is a debatable matter, too. I am sure I would have gone in good company if I had gone with the committee. May I point this out, and I hope it will shorten what we are not in agreement on now: my friend Mr. Green is asking to have an arbitrary division of the activities of the plant which he is incapable of doing except as a guess. We are going to have, I trust, Mr. Gillespie, who is in charge of this plant, before the committee rises. We are going to have Major Hahn who is the president of this company and has been at the plant practically every day, as I understand it, supervising the activities. Why speculate and ask for an arbitrary division of things which are factual? Let us put first things first. If you are going to have a division of the plant capital, let us find out what it ought to be, and then, if you like, ask the accountant to give us the result. Surely, that is the way to proceed.

Mr. GREEN: The unfair part of this is that a statement such as this goes out to the public across Canada. The statement is obviously based on an inaccuracy, because—

Mr. McPHEE: Why?

Mr. GREEN: Because all the capital that is invested is not all going into the Bren gun division, and every one on this committee knows it. That is why I say it is absolutely unfair that a statement containing these percentages should go out to the country without there being some check on how much of this capital is used for the Bren gun division and how much is used in the commercial division. If the government supporters want to scrap this right now let us go ahead and do it. It is absolutely unfair that a statement of this type should be given to the public.

Mr. McGEER: That is the—

Mr. SLAGHT: I think my friend is most improperly criticizing Mr. Elliott and the preparation of this statement. Mr. Elliott's evidence has been very fair throughout. The question propounded, as he has explained, is a very difficult one to answer at all, either by an accountant or anybody else. He has done his best and he made a frank statement indicating there might be differences of opinion along the lines you indicate. When my friend says it is

[Mr. C. Fraser Elliott.]

clear that only part of the capital of this company went into the Bren gun division—that is the word he used two or three times—I do not know if he knows what he means by that.

Mr. GREEN: Speak for yourself.

Mr. SLAGHT: Every dollar of capital in this company has gone into some useful purpose for the production of Bren guns, every dollar of it.

Mr. MACNEIL: No.

Mr. SLAGHT: It might not be working full time for the production of Bren guns. But the absurdity of the question is this: he speaks of the Bren gun division—

Mr. GREEN: What about engines and things of that kind? That is all done by some of the capital.

Mr. SLAGHT: By some of the capital, true.

Mr. GREEN: It has nothing to do with the Bren gun at all.

Mr. SLAGHT: In part, every dollar of capital in this company is being used for the production of Bren guns.

Mr. BROWN: No.

Mr. SLAGHT: They have first priority on their production.

Mr. HOMUTH: That statement is not correct.

Mr. BROWN: Two-thirds of the plant is not being used for Bren guns at all.

Mr. HOMUTH: That statement is not correct. Whatever work they are doing in the old part of the building, with the exception of the addition and that small part of the old building in which the government machinery is set up, they are being paid for and get 10 per cent profit on everything they do in making tools and other equipment for the production of Bren guns. \$280,000 of appraisal which the committee arbitrarily put on is not being used in the manufacture of Bren guns. The investment they are using for the manufacture of Bren guns is the new building, and that small portion of the old building in which the government machinery is set up. All the dies, machinery and every other bit of equipment is being supplied by the government and paid for. The work being done in the Inglis plant is being paid for at a profit of 10 per cent by the government for the production of dies and tools for the manufacture of Bren guns.

Now, it is unfair to say that the whole set-up of the Inglis company is for the purpose of doing that. They could have set up a separate and distinct building and have the government equip it as it is equipping this, and have bought their dies and tools elsewhere and the whole Inglis concern would not have fitted into the picture at all.

Mr. SLAGHT: Mr. Chairman, I want to support Mr. McGeer's objection to a whimsical foundation—

Mr. GREEN: Why this business of whimsical foundation, and not knowing what we are talking about and so on and so on? It had better stop right now. The member from Parry Sound did it on two or three previous meetings of this committee. I suggest to you that you stop that kind of business if we are going to get anything done here in a decent and friendly way. If we are going to do that, remarks such as that must stop.

Mr. SLAGHT: Perhaps you had better wait until I make my statement. Whimsical and arbitrary allocation by one member of the committee of a portion which an accountant might spend hours and perhaps days working out. As I pointed out, there will come before us men who are in charge of the plant on the ground and who can tell you what proportion of their activity is divided between the Bren gun and the commercial division. Now, surely it is unreason-

able to proceed upside down and the wrong way. I cannot understand my friend this morning wasting time with such a procedure.

Mr. DOUGLAS: May I say a word? I do not think we have to argue over the division of the John Inglis plant. The government officers already have made some division and some investigation. A previous witness told us that certain money expenses such as office and other overhead costs were divided, the government paying two-thirds, and the John Inglis plant, I believe, one-third. It looks on that basis as if the government considered about two-thirds of the plant operating expenses were devoted to Bren gun production and the other one-third to the commercial division.

Mr. FACTOR: Mr. Green arbitrarily—

Mr. McGEER: Now—

Mr. DOUGLAS: I object.

Mr. McGEER: I am raising a point of order, and I want my friend—

Mr. MACNEIL: Make your point of order; you are making a political speech.

Mr. McGEER: Mr. Chairman, I have just this to say: when a member of this committee rises and changes by a statement made publicly the evidence before the committee he should be curtailed in the expression. Now, the statement that the hon. member has made is to the effect that there is evidence that two-thirds of the cost has been arbitrarily allocated to the Bren gun plant and one-third to the commercial division. That is not the evidence at all. The evidence is that certain items, and comparatively small portions of the whole, have been temporarily divided as between the commercial and the Bren gun plant. Some men, because of the work involved in putting up the Bren gun plant, are devoting practically all of their time to that particular department.

Mr. HOMUTH: The evidence does not show that.

Mr. DOUGLAS: No. I fail to see this point of order, in the first place. It is a counter argument.

Mr. McGEER: Just a minute. Of course, you can probably use points of order to stop misrepresentation.

Mr. DOUGLAS: In order to bring in some misrepresentation.

Mr. McGEER: I quite agree. I am glad my friend appreciates that others have the right to resort to the same tactics as he employs. That is the spirit of fairness one would expect from the distinguished member from Saskatchewan, and I am glad that he agrees—

Mr. MACINNIS: Is this part of the point of order, Mr. Chairman?

Mr. McGEER: Yes, it is part of the point of order.

Mr. MACINNIS: Try to limit the point of order to some reasonable proposal.

Mr. McGEER: In any event, the point of order that I do wish to make is this—

Mr. MACINNIS: Oh; you are coming to it now, are you? All right, let us have it.

Mr. McGEER: There are so many points of order one could raise.

Mr. MACINNIS: I know; you have got five hundred.

Mr. HOMUTH: And points of disorder.

Mr. McGEER: I want my friends to know that I have been through quite a few things of this kind.

Mr. MACINNIS: No doubt.

Mr. McGEER: Where tactics such as they are employing were used.

[Mr. C. Fraser Elliott.]

Mr. MACINNIS: Tactics? I rise to a point of order now, Mr. Chairman. Whenever any one on this side rises to a question, the member for Vancouver-Burrard immediately dubs it as tactics, unfair tactics.

Mr. McGEER: No, no; I did not say unfair tactics.

Mr. MACINNIS: If it is not unfair, why are you rising to a point of order?

Mr. McGEER: Because I say that these are tactics that I have been acquainted with before.

Mr. MACINNIS: Quite.

Mr. McGEER: I would not say that they are altogether unfair, because I do not think the hon. member for Vancouver East has much idea of what fairness or unfairness is.

The CHAIRMAN: Order.

Mr. McGEER: But I will say that it may save the time of this committee now, Mr. Chairman, if I may—

Mr. MACINNIS: Speaking of time, let me say that you have been taking up two-thirds of the time of this committee since we have been sitting here.

Mr. McGEER: Louder.

Mr. MACINNIS: I can talk just as loud as the member for Vancouver-Burrard.

The CHAIRMAN: Order, gentlemen.

Mr. McGEER: I think that is probably one feature where you can compete with me.

Mr. MACINNIS: There are other features too.

Mr. McGEER: What I wish to do now is to suggest that we go on with the examination of the witness on this particular point, on this particular statement, without going into the realm of other statements that might be developed. When we exhaust the examination of the witness on this particular statement, then if there are other statements to come in, let us have them.

Mr. MACINNIS: Mr. Chairman, I rose quite early in the proceedings to suggest that very thing. But when I rose at that time the member for Vancouver-Burrard objected to it.

Mr. McGEER: No, I never said a word.

Mr. MACINNIS: He said there were five hundred assumptions in his mind that he wanted to bring out in this connection. I agree that we should stick to the statement that has been placed before us by the witness. If Mr. Green requires any other statement, then we can get that statement in the ordinary way. I think the chairman would be in order if he made a ruling of that kind.

Mr. McGEER: That is the only ruling I request. We are in agreement there.

Mr. GREEN: I have here a bulletin from the John Inglis Company. This was sent to me from Vancouver some weeks ago. It is bulletin No. 4, February, 1939. In describing the plant and facilities of the John Inglis Company Limited, it says:—

The buildings of the John Inglis Co. Limited, Toronto, are situated on eight acres of land and contain over 200,000 square feet of floor space. The commercial manufacturing buildings consist of a machine shop, tank and plate shop, forge and flange shop, and a pattern and wood working department. The ordnance manufacture—

which is the Bren gun.

—is segregated in a special building for this purpose.

Then they go on to describe what type of commercial work as distinguished from military work is done in the factory. The description is as follows:—

The facilities of the machine shop are suitable for manufacturing a wide range of machinery including marine engines, hydraulic turbines, surface condensers, centrifugal and reciprocating pumps and a complete line of conveying and elevating equipment.

The plate shop is fully equipped to manufacture tanks, bins, pressure vessels and boilers of every description, of riveted or welded construction, and can flange, shape and completely fabricate plates up to a thickness of two inches.

The hydraulic presses and hammers in the forge meet the requirements of the plate shop, and have produced such heavy equipment as pulpwood digesters, high pressure gas tanks, marine legs for grain elevators, ore bins, coal bunkers and miscellaneous tank and plate construction.

I submit to the members of the committee—to those who have taken part in this discussion and to the other members—that it is quite obvious that there are two plants or two divisions, the commercial and Bren. It is perfectly obvious that all this capital is not being used for the production of Bren guns. I say it is only fair that we should get a statement similar to this statement which is presented today, but which takes into account the fact that at least part of the capital is being used for commercial purposes and part for the Bren gun. If you wish to have that statement based on a fifty-fifty basis or on a basis of two-thirds to the Bren gun and one-third to the commercial division—because Major Hahn's salary is being paid on the basis of 60 per cent by the government and 40 per cent by the commercial division—all right.

MR. FACTOR: How can you tell that without getting evidence of what part is used?

MR. GREEN: Why should this statement be brought in which is obviously inaccurate. It is absolutely inaccurate.

MR. BERCOVITCH: Mr. Elliott told us how he made up the statement. He told us the reasoning.

MR. GREEN: I ask that we be allowed to get a statement just as I have suggested.

THE CHAIRMAN: May I suggest that Mr. Green go back to his original question to the witness. Let me say that it seems obvious to me that we can only procure the evidence required from certain sources. If we get the witness' answer as to whether or not he can supply the statement, we will know where he stands. If he cannot supply it, then we can procure it from the source where it can be procured.

MR. GREEN: I do not think there is any doubt that the witness can supply that statement, drawn on the basis of half of the capital used for the commercial division and half for the Bren gun.

MR. BEAUBIEN: The witness said he could not.

MR. ISNOR: May I suggest, before we go on with any other question, that you complete this question? I did not ask the question, but Mr. MacNeil asked it. I should like to know the exact wording of the first part of the question as asked by Mr. MacNeil; and then I should like to know as to whether he, Mr. MacNeil, has the full information or answer from the witness.

THE CHAIRMAN: You want the witness to answer?

MR. ISNOR: Yes.

THE WITNESS: The first question is quoted at the top of the sheet I gave you and is taken from the record of the last meeting. The question was: "Rate [Mr. C. Fraser Elliott.]

of return on the capital invested by the contractor." You will observe that it did not go on to say "broken down into that part which may be deemed to be applicable to this contract or that contract." But in bringing in my reply to the question as to what was the return on the capital invested, I took the general broad view that the capital invested meant the corporate capital put into the company, and the relation of that, in percentage, to what this contract, the Bren contract, would bring if it were wholly successful. I really think that is what the question intended. If I might be allowed to help Mr. Green a little, let me say that he asked if we could have a fifty-fifty split, fifty of the capital to the Bren and fifty to the rest. If you want that, just divide those figures by two, and you have got the answer; or divide it by a three. You can do that yourself; and that would be my answer. But I say that I should not like to recommend to the committee my split of the capital, so much to the Bren and so much to the rest, because I could not even recommend the split I would finally write down to myself. I do not think I could do that. Others might, I think perhaps they have to do it in part when they come to pay certain expenses. But that is outside of answering this question as to what is the return on the capital invested and not broken down as suggested. I should like to ask Mr. MacNeil a question, if I may. Have I really answered his question in its true intent and spirit?

Mr. MACNEIL: I admit I should have added the words "with reference to the Bren gun contract". We were talking about the contract at the time and I was trying to discover how much was invested by the contractor in the contract.

The WITNESS: If I might reply to that, I should like to add that I do not think I am the one who should break it down, but think that should be done by those who really know the plant or how the physical plant is divided.

Mr. HOMUTH: I really think that, as far as the answer is concerned, it did answer Mr. MacNeil's question. his question in his own mind, but I think it was incomplete. I would suggest that these figures—and I think that everyone will admit it—do not constitute a full report on the Bren gun part of the production. I think this should be held in abeyance until we can get the accountant here who can give us the figures broken down as between the two.

Mr. ISNOR: That is a fair answer to the question.

Mr. FACTOR: It is a fair answer to the question as put.

Mr. MACNEIL: As stated.

Mr. FACTOR: Yes.

Mr. DOUGLAS: May I follow up what I was saying before Mr. McGeer interrupted on a point of order, which was no point of order at all. Here is the point I had in mind. The reply given by the witness is a correct reply on the basis of the question that was asked. A new factor has been raised; and I was merely pointing out that a previous witness had stated that on certain items of expense there had been a division, and it is not a permanent thing. If I may, I should like to read that part of the evidence, which is on page 91. Mr. MacNeil says:—

Q.—This refers not only to buildings, but overhead, because this section deals with wages, salaries of indirect labor, engineering services, salaries received by executives, and so on?—A. Except those which have not yet been definitely fixed. I speak not from memory but by way of illustration. They have fixed a percentage of salaries, the amount of salaries of executive officers and so on applicable to the contract, and a number of other items not definitely fixed in relation to this particular contract, but in relation to the War Office contract. Now, there are other general items which cannot be definitely fixed in a precise amount,

so many tools per month, but in the meantime my information is, and in fact it was given to me in relation to a particular matter that I was dealing with over the week-end, that the department has taken 66⅔, or two-thirds and one-third as the ratio. Two-thirds applicable to the contracts and one-third applicable to the commercial business.

By Mr. McGeer:

Q. I take it that would be subject to change?—A. Subject to change, practically on twenty-four hours' notice.

By Mr. Homuth:

Q. To change either way?—A. Yes, but again it has been contemplated that that ratio will come down.

I merely wanted to quote that to show that I do not think we can fix that. This committee are certainly not competent to fix the ratio, and I was not going to suggest a ratio of two-thirds to one-third or fifty-fifty. What I did want to say was that while the answer is correct in relation to the question, it would be fairer if we could have some idea of it. I wondered if the chairman could secure some information, or if the witness could secure it, as to what the return would be in relation to the amount of capital invested that is being used for the purpose of these contracts. That would give us a fairer idea of the return that is coming to the John Inglis Company.

Mr. McGEER: Would you mind giving me the page of your reference?

Mr. DOUGLA: Page 91.

Mr. FACTOR: The witness said he could not.

Mr. DOUGLAS: The witness might not be able to do it now, certainly not ad lib. But I wondered if it could be prepared by his department and given to the committee at a later stage, or if the chairman could secure that information. I think it is perfectly obvious that the statement we have now is the return the company are making on the basis of their total investment, all of which is not being used apparently or quite evidently for the purpose of this contract.

The CHAIRMAN: In answer to the hon. member's question, I think all I can say is that I do not think the present witness can give or possibly procure the information. But I think that we can assume the responsibility of procuring the information you require from the proper sources; then when the witnesses are on the stand, they can be questioned in connection with the information we have procured and we can probably clear the whole thing up. In the meantime, we will endeavour to get a statement of the amount of capital used in connection with Bren guns or the percentage used in connection with commercial and the percentage used in connection with Bren guns. We will table this. Then, as I suggested about half an hour ago, when the proper witnesses are on the stand, you can cross-examine them as to the accuracy of the evidence.

Mr. McGEER: What I should like to point out is that when we finally got down to the end of that discussion on the division of the amount, the chairman pointed out on page 92 that we were asking the witness questions that he could not answer. For instance, in the middle of the page, the chairman says:—

The CHAIRMAN: You are asking Col. Orde questions that are beyond his scope.

The WITNESS: I cannot answer that question.

That is where we got. The only thing I would suggest to the members of the committee is this. We have a statement here. There are some questions

[Mr. C. Fraser Elliott.]

I should like to ask about that. I think if we confine ourselves to an examination of this statement as far as we can go, we can answer the other statement later.

Mr. GREEN: Mr. Chairman, perhaps it would simplify the matter if Mr. Elliott could figure out right now—it will take him about two minutes—what the percentage on the capital invested would be if 50 per cent of this capital were used for the Bren gun and 50 per cent for the commercial.

Mr. FACTOR: No; that is unfair.

Mr. BERCOVITCH: That is hypothetical.

Mr. GREEN: There is nothing more hypothetical about it than the statement we have now. I do not see why government supporters are so reluctant to have these figures worked out by Mr. Elliott.

Mr. BERCOVITCH: The government supporters are anxious to have the facts and nothing but the facts.

Mr. GREEN: Some of the facts.

The CHAIRMAN: Order, gentlemen. Let me see if I can clarify this question in this way. In the first place, may I say to Mr. Green that I can assure him that I am not anxious to confine the witness in any way; and if he can possibly answer your question, there is no reason why he should not answer it.

Mr. GREEN: I thought the question was all right. The chairman has said if Mr. Elliott can answer the question, let him do so.

Mr. FACTOR: It is a hypothetical question.

Mr. GREEN: It is an awkward question, that is all.

The CHAIRMAN: Order, gentlemen. Whether a question is hypothetical or whether it is not hypothetical, I think if it is within the scope of the witness to answer the question, there is no reason why the question should not be put. If Mr. Green will ask the question, we will get an answer from the witness. Then if he will permit me, I shall try to cover the next point.

Mr. McPHEE: No.

Mr. FACTOR: Mr. Chairman, suppose I ask Mr. Elliott to figure it out on a percentage of 90 and 10 or 75 and 25 or 60 and 40. They are merely hypothetical questions; they are suppositions. They serve no purpose at all.

Mr. McPHEE: If I were to ask Mr. Elliott to figure out the percentage on the basis of \$167,000 of the estimated profits to be taken up in rejections, would he answer the question? You could go on for weeks with that sort of thing.

The CHAIRMAN: May I say to both hon. gentlemen who have just spoken, in order to clarify it, that the question can be put and Mr. Elliott can answer. He answered a few minutes ago by saying that hon. members could use the division of two or three or four or any way they liked; but when it comes down to a question of answering on an authentic basis, Mr. Elliott can only answer in accordance with his information. I think it is quite proper to let Mr. Green proceed.

Mr. GOLDING: What is the use of wasting time after he has already answered that or already told us that?

The CHAIRMAN: May I say to Mr. Golding that we are engaged in a public inquiry; and obviously under our democracy we are going to waste time. But if it is going to clarify any question, I do not see any reason why the question should not be answered. The question can be answered in a minute.

Mr. McPHEE: No; I object to the question.

Mr. GREEN: Certainly you object to it.

Mr. McPHEE: Because there is no evidence on which to base it. There is no evidence that 50 per cent of the capital invested in this company is being used up in the private interests of the company.

Mr. DOUGLAS: Mr. Hahn said it.

Mr. McPHEE: Mr. Hahn has not said it.

Mr. DOUGLAS: He told the committee that.

Mr. MACINNIS: Mr. Chairman, would you give me a moment, in the name of democracy? I think there is already a basis on which Mr. Green's question can be answered. I have in my hand a communication addressed to the secretary of the committee, Mr. Burgess, by the Deputy Minister of National Defence. In that communication is listed the salaries of those employed in the John Inglis Company, including Major Hahn and the staff under him. These salaries are broken down. The heading of the page is "Salaries approved by the department as chargeable to (a) both contracts, and (b) Canadian contracts." Then there is a further breakdown and we see Major Hahn's salary of \$10,000. Then we see the percentage chargeable to contracts, that is, to the two contracts, the Canadian and British contract, 60 per cent. The amount chargeable to contract is consequently \$6,000. The amount chargeable to the Canadian contract is \$4,000.

If \$6,000 is chargeable to both contracts it leaves \$4,000, making up the \$10,000, which is paid by the private commercial business. I think Mr. Green's information can be ascertained on that basis, and it would be about as authentic as we could get it at the moment.

The CHAIRMAN: Gentlemen, I think we should be fair to the witness and fair to my honourable friend. Instead of having the honourable member ask his question and having some other member get up and answer it, if we would let the honourable member ask his question and get on with our work, I think it would be much better.

By Mr. Green:

Q. Mr. Chairman, if I might ask the witness this question: If half were invested in the Bren gun division and half in the commercial division that would mean a total capital investment which would have to be taken into consideration of \$250,000.—A. Quite.

Q. It would also mean that the mortgage interest instead of being \$9,000 would be \$4,500.—A. Oh, no, I would not agree with that. As I explained in connection with the contract we do not pay that mortgage interest.

Q. No, but—A. Oh, well, without interrupting your assumption, that is probably right.

Q. That would make your figure there \$40,000, less income tax, which would then be \$6,000, as I figure it, leaving a balance of \$34,000 profit on an investment of \$250,000, which I work out to be 13.6 per cent.

Mr. McGEER: Now, Mr. Chairman, I objected to that question before because, as I say—

Mr. GREEN: Mr. Chairman, am I to be allowed to ask a question or am I not?

The CHAIRMAN: Order, gentlemen.

Mr. McGEER: The point of order I raised was this: If we are going to go into that realm of assumption then there will be, as Mr. McPhee pointed out, other assumptions. Let us assume that instead of making \$267,000 profit that profit is going to be cut in half from redemptions and other things. Let us assume that there might be an increase of working capital required. If you are going to permit one question on one assumption, which my honourable friend seems to think is an advantage to his point of view in the inquiry, then those offsetting assumptions have got to be taken up. Investigations on hypotheses of that

[Mr. C. Fraser Elliott.]

kind are unlimited. Can we not confine ourselves to an examination of this statement? It is now before the committee, it has to be dealt with in detail because it is before the committee, and if there is any other statement to go in, properly asked for, we can deal with it. But surely, Mr. Chairman, we cannot allow that type of examination without leading the committee far, far away from the contract, far, far away from the production of Bren guns and far beyond the limits of the committee's power of investigation under the terms of the reference to us.

Mr. DOUGLAS: Mr. Chairman, you have given your ruling.

By Mr. Green:

Q. Are those figures correct, Mr. Elliott?

Mr. McGEER: Oh, no. I have asked for a ruling from the chairman. That question is improper and incorrect.

The CHAIRMAN: My suggestion would be—

Mr. GREEN: On the point of order, Mr. Chairman, I had a very good basis for asking the question, and that is what Hahn told us himself, that is to say, a 50 per cent commercial division and 50 per cent Bren gun division—

Mr. McGEER: I object to that on this ground: It was well known when we went to Toronto that we were going to examine the plant; that we were not there to take evidence, and we took no evidence. Major Hahn is going to be here.

Mr. GREEN: The statement which I have just read was issued by the John Inglis Company, and if these other gentlemen want to ask questions based on 75 per cent or 25 per cent, that is perfectly all right with me; but I do not see why I should be choked off simply because an answer may not be helpful to the government.

Mr. DOUGLAS: Choked off by government counsel.

The CHAIRMAN: May I say to my honourable friend that it must be very obvious to him that I am not endeavouring to choke him off. I am endeavouring to let him go.

By Mr. Homuth:

Q. Might I ask Mr. Elliott a question which perhaps will clear this up? If Mr. MacNeil had asked you for the amount of capital invested in the Bren gun contract and the profit accruing thereon would this sheet that you have given us this morning have been a correct answer?—A. Oh, I think it would.

Q. Would it have been a correct answer in so far as the performance of the Bren gun contract is concerned?—A. I will say why I think it is correct; because in the Bren gun contract, qua contract alone, there is not any investment. The investment is in the company itself which performs the contract. Therefore, if you were to ask what is the investment in the Bren gun contract I really think on that broad statement that this is the right way to approach it. If I might suggest something to help to clarify it let Mr. MacNeil ask his question again exactly as it is at the head of this sheet but add "broken down so far as it can be and related to the contract." If he asks that of me I will say that I suggest the answer be given by those who did the breaking down, and we shall then be able to hear it and put it in evidence.

Q. To that question you would say that this would not be a correct statement?—A. Oh, no, I would not say that because that is in my judgment both fair and correct on that question. But if you want another question this will not answer it; you will have to get another statement. That is what I suggest; that the question be carried on as it is at the head of this paper plus the words "broken down so far as can be and that capital related to the Bren gun contract." But do not ask me to answer that.

Mr. GREEN: Mr. Chairman, I should like to have a ruling from you as to my question.

Mr. MCPHEE: Mr. Chairman, first of all, on the point of order, the honourable member from Weyburn has just made one of these loose statements that go out to the country and make him a hero, in which he says that government counsel have choked off the question of my friend, Mr. Green. There are no government counsel around this table; we are here just the same as he is here, with the same status as he has; and I think the implication which he made should be denied as effectively as it is possible to deny it.

The CHAIRMAN: Gentlemen, my friend Mr. Green has asked for a ruling. The position is this: The witness has stated that in answer to an enlarged question a different answer would apply. I stated a minute ago that we would procure the information required to answer the enlarged question of a breakdown of the cost between the public and private operations of the John Inglis Company. Now, if Mr. Green wishes, with any figures he may have in mind, hypothetically or otherwise, to ask the witness for a division of these figures by two or three or four, he knows perfectly well that it is his own decimal he is using and I do not see any reason why he should be prevented from asking the question if he wishes to put it on the record.

Mr. FACTOR: It is already on the record, sir.

The CHAIRMAN: On the other hand, the record this morning is certainly full of evidence pro and con which anyone can read and interpret in any way he likes. Mr. Green wishes to ask a question of the witness based on decimals that he himself is using.

Mr. BERCOVITCH: That is done at school.

By Mr. Green:

Q. What I asked you, Mr. Elliott, was that the first percentage, instead of being 6·035 per cent on capital invested would be 13·6 per cent, would it not?—A. On the split you have taken in working it out, that is correct.

Q. Including the British contract the figure, instead of being 11·22 per cent of the capital invested, would be 25·23 per cent on capital invested, would it not?—A. I have not worked the calculation out, myself, but following you as I did and believing your mathematics to be correct, I would say "Yes."

Mr. GREEN: Thank you.

By Mr. McPhee:

Q. Following that up, if the rejections amounted to \$167,000 of the estimated profits, what would the percentage be?—A. Nil.

The CHAIRMAN: Now, gentlemen, can we not proceed? Everybody should be happy on that point. We have it both ways; 25 per cent on one hand and nothing on the other. So may we proceed with the witness?

Mr. BERCOVITCH: Yes, to get some facts.

By Mr. McGeer:

Q. I should like to examine on the statement. I presume it is being put in as an exhibit. Has this statement been filed as an exhibit, Mr. Chairman?

The WITNESS: Not yet.

The CHAIRMAN: Some one brought up the point a few minutes ago about keeping this statement off the record.

Mr. HOMUTH: No, I did not say to keep it off the record; I said perhaps it might be well to hold this statement back for further discussion, so far as the statement is concerned, until we could get the complete breakdown.

[Mr. C. Fraser Elliott.]

Mr. BERCOVITCH: Let us have the statement in the record.

Mr. HOMUTH: It is in the record.

Mr. BERCOVITCH: Have you the number of the exhibit?

The CHAIRMAN: Number 8.

By Mr. McGeer:

Q. Dealing with this statement, Mr. Elliott, which I understand is to be in the record as exhibit 8 and which is headed "Rate of return on the capital invested by the contractor," this conclusion is based on the assumption that the full amount of the over-riding profit is to be made.—A. That is correct.

Q. If through rejections the over-riding profit payable to the contractor is reduced then the percentage return in this statement would have to be reduced accordingly?—A. That would follow.

Q. It is also based on the assumption that no more working capital is going to be required?—A. No, the statement is not based on that assumption. The statement is based on the figures referred to in the opening part of it. There is no assumption as to what might yet be acquired, it is a factual statement.

Q. Yes, it is a factual statement of the amount of the working capital required as estimated?—A. No.

Q. And no one will be able to tell actually the amount of working capital used in this contract until the contract nears completion, will they?—A. Well, that might be the condition, that in future more working capital may be required; but I really would not comment on that one way or the other.

Q. The fact is that if more working capital were required that would mean changing the percentages of profit?—A. On that assumption, yes.

By Mr. Homuth:

Q. Is it not a fact that as they proceed with this work, even in the preliminary stages, each month they submit their accounts and receive 90 per cent on it?—A. That is correct.

Q. That is correct; so that the assumption that no further working capital would be required in view of the fact that the government supplies the machinery, all the dies and everything in connection with turning out the Bren gun except the stock and the labour and so on—it is not a very fair assumption to assume that any further capital would be required?—A. You see, I cannot either affirm or contradict or make assumptions—

Q. The fact of the matter is that every month they get 90 per cent?—A. By the terms of the contract they are to get it. You would have to ask someone else whether factually they do or not.

Q. According to the terms of the contract they are to get 90 per cent of the expenses?—A. That is correct.

Q. One month they get 90 per cent, and the next month, and so on?—A. That is right.

By Mr. MacInnis:

Q. There are just one or two questions I would like to direct to the witness. From what source did you get the amount as shown by the capital items as being located in the business?—A. You will find them referred to in exhibit 56, which quotes a letter from Major Hahn dated the 1st of March, 1938.

Q. Has the witness any information as to whether or not all of this capital is at the present time invested and working?—A. Well, all I can say about that is that I am informed that it is being used, with the exception of probably about \$19,000; but that is subsequent evidence and I suggest that you get it from Major Hahn or someone who really knows. That is after the contract.

Q. One assumption more or less does not matter; if all of it is not at present working these percentages would be greater than is indicated?—A. Quite so.

Mr. McGEER: That is quite correct.

By Mr. McGeer:

Q. Now, that amount that is to be paid to the contract is not of necessity 90 per cent of the total expenditure, but it is 90 per cent of his expenditures which have been approved and accepted and vouched for by the departmental officials?—A. That is correct.

Q. Presumably supposing that this country proceeded to go into production and spend a considerable amount of money, and out of the 160 parts which make up the gun they were to find that a number of them were defective, there would be no payment on the 90 per cent, or any percentage of that amount at all? A. So far as expenditures relating to defective parts are concerned, the contractor himself must bear them.

Mr. McGEER: The contractor must bear them all.

Mr. HOMUTH: Now, Mr. Chairman, this all absolutely contradicts all the argument that Mr. McGeer made in the house, and may I say that in my opinion Mr. McGeer was the only one who really made a real defence of the contract in the house; this directly contradicts everything that Mr. McGeer and everybody on the government side in the house said when they made the assertion that the Hahn company was the only company in Canada equipped to turn out Bren guns, that they were perfect in that kind of work, that they were experienced in the handling of precision steel, and so on. The statement he now makes just contradicts all that.

Mr. McGEER: I am afraid we will have to leave it to the record as to what I said in the house. I am afraid the record will not bear out the statement which my hon. friend has just made. I think you are getting again into the realm of that picture gallery.

By Mr. Green:

Q. If there were losses in the commercial division to any amount at all they would be deducted from this figure of \$44,500 your profit which you calculate will be made on the Bren gun contract?—A. Yes.

By Mr. McGeer:

Q. This particular contract is peculiar from the cost accounting point of view, in that it is the first associated with a similar contract with the British War Office; that is correct, is it not?—A. I believe that to be so.

Q. Yes. As we have already had from you in your evidence, that association of contracts has worked out to the very great advantage of the Canadian government?—A. That is correct.

Q. Now, this contract is peculiar in that it is undertaken by a company that had purchased a plant that was closed down and not in operation at a value considerably less than its appraised and assessed value?

Mr. HOMUTH: Now, Mr. Chairman, I object to that question; that is not a fair question. We have no evidence dealing with it. You have Major Hahn's letter and it was in evidence before Mr. Justice Davis; and in that letter he gives figures stretching back over a long period of years showing profits that were made by the old company, and so on. The question Mr. McGeer has put—it is not a question but rather a statement—Mr. McGeer's statement is not based on a question of facts.

[Mr. C. Fraser Elliott.]

The CHAIRMAN: Might I suggest to the hon. member, and to other members, if they would just let the witness answer questions we could make better progress. Much as I love to hear my good friend Carl (Mr. Homuth) speak, I think perhaps in his weakened condition with the 'flu, if he were to adopt my suggestion it would save him a good deal of effort.

The WITNESS: Relating the answer back to the question, it does not make the contract peculiar, but it does make the contractor himself, or itself—whichever you prefer—peculiar. Question: Does he call this contract peculiar because the contractor did or did not do certain things? And I say it does not touch the contract to make it peculiar, the peculiarities referred to are related to the contractor himself, or itself, whichever you have in mind.

By Mr. McGeer:

Q. Of course, the idea in mind was the statement from the British War Office on the general reduction in the cost of producing the gun?—A. Yes.

Q. What I thought, and I particularly remember that statement which has been made before this committee and which was made before the Davis commission, that because part of the plant was on commercial work, say one-quarter of it, that would have the result of reducing the general cost of Bren gun production?—A. That is based on the assumption that part of the commercial overhead would enure to the benefit of the company itself—

Q. I will get the exhibit. If I recall rightly there was some question of cutting the cost down, and I think one of the things recited by the British War Office that would help to reduce the cost of the production of the Bren gun would be the use of some of the equipment from the old Ross rifle factory, and the fact that the general overhead would be very substantially assumed by the company in its commercial activities carried on in connection with the same plant as used for the manufacture of the Bren gun. They recognized that as one of the factors which should help to reduce the cost to what they considered a satisfactory point.—A. I am afraid you will have to turn the exhibit, I don't remember.

Mr. HOMUTH: You have got to remember this also, while two-thirds of Major Hahn's salary is being charged to the production of the Bren gun the other third being charged to the commercial end of it, so long as the commercial end is working on the equipment for the manufacture of Bren guns they are receiving a proportion of Major Hahn's salary and the government is paying for it, not only the cost of production but 10 per cent of the profit on the product.

Mr. FACTOR: What was that, a speech, a statement, or a question?

Mr. HOMUTH: It was a statement, following Mr. McGeer's statement.

Mr. FACTOR: Why don't you go into the witness box and appear as a witness yourself?

The CHAIRMAN: Order, please, gentlemen.

By Mr. Green:

Q. What is the picture with regard to the assumption of that mortgage of \$150,000? Was it take over by the company?—A. That is an obligation of the contractor.

Q. It is not an obligation of Hahn or his associates?—A. No, the contractor.

Q. Of the Inglis company?—A. Quite so.

The WITNESS: I think, Mr. McGeer, I might come back to your question and re-phrase it and see if I can help you out, and myself.

Mr. McGEER: Yes.

The WITNESS: Your suggestion is that because there were certain overhead expenses related to this company that are fixed—for example, Major

Hahn's salary—it relates to both the making of the Bren gun and to the commercial contract. Question: Because the salary is split and the Crown only pays that part which relates to the time Major Hahn gives to the Bren gun contract, therefore, they are not saving because the other part of his salary goes to the commercial part of the business; is that the question.

Mr. McGEER: Yes.

The WITNESS: My answer to that would be that so long as that goes to the commercial part there is not a saving in our contract. It has no effect, for the simple reason that it has no relation. We say that of the total salary that Major Hahn gets we are only going to pay that part that is applicable to us. The other part is not a saving. It is just something outside of our contract.

By Mr. Brooks:

Q. Major Hahn is not giving his services; he is paid by us for the service he is giving?—A. That is another, a more accurate way of stating it.

By Mr. McInnis:

Q. Would you look at the bottom line of this statement, Mr. Elliott; the copy which I have is a carbon copy and as I listened to you I thought you read the figure as 5·03 per cent and 5·35 per cent?—A. Did I? It should be 9.

Q. It should be 9?—A. Yes, if I said "five" it was a mistake; it should be 9·35 per cent.

By Mr. Green:

Q. Where will we find provision guaranteeing the working capital?—A. In the same letter of Major Hahn dated the 1st of March. It is contained in exhibit 56. As you will see by reading it, there is an item relating to additional working capital guaranteed by the shareholders as required by the company up to \$100,000; and the next item is the revolving bank account which will be arranged as required up to \$200,000.

Q. That is not in the contract at all?—A. No, I am quoting from Major Hahn's letter as to the capital he indicates will be required.

Q. It was not put in the contract?—A. Oh, no; it was ignored, as a matter of fact.

Q. What was that?—A. In the making of our contract we did not concern ourselves with the revolving bank loan. I just put it in at the end of the statement because someone might say, well he has got to have that capital, why didn't you give him some consideration for it. I am as willing to kick it out as anybody else, or to draw it in. I am just trying to make this as comprehensive as possible.

By Mr. Brooks:

Q. Do you know when these mortgage bonds are to be paid; is it during the life of this contract?—A. No, I do not know.

By Mr. McGeer:

Q. Now, Mr. Chairman, if I might just continue: This exhibit 227, where the cost of production was considered, and it is on the third page of a statement which was attached to a letter signed by Sir H. A. Brown—that is Sir Harold Brown of the British War Office—and the letter is dated February 11, 1938, and it is exhibit 227, and I take it, was dealing with the final adjustment

[Mr. C. Fraser Elliott.]

of costs for the gun, and as between the British and the Canadian authorities, and on the last page of that exhibit 227 we find the cost reduced by the following factors:—

Eliminating sales tax \$42.94; saving per gun, "Ross" equipment, \$16.66; absorbing factory overhead on standard business, \$19.60; saving by Enfield new estimate, \$22.39.

So apparently the British War Office recognized that the total cost of the gun was being reduced by the fact that there was a commercial as well as a war contract activity being carried on by this company?—A. It is an allocation; it is not a saving, is it? I would call it an allocation.

Q. The only thing is that, I think, while there might be some advantages to the John Inglis Company as a commercial company to have this contract, on the other hand it is recognized that because the John Inglis Company had secured this plant and equipment and were carrying on commercial enterprise—

Mr. HOMUTH: Wait a minute. I object to that. Mr. McGeer stated they were carrying on. They were not carrying on. The plant was shut down. They did not make the final payment until—

Mr. McGEER: I agree; it should be, intended to carry on, which intention was subsequently carried on. They intended to carry on the commercial activities at the same time they were carrying on the war contract, and in that way they had some advantages in the way of reducing costs in the production of the guns.

The WITNESS: Well, that is an interpretation that can be taken from Sir Harold Brown's letter, but I think you have to relate first the allocation of expenses to the proper parts, and then the second comes in order now, that part being, a person who is already carrying on a commercial business, is it not reasonable that he will be able to do another contract of somewhat the same character with a greater efficiency than if he did not have like commercial contracts? Is that it?

Mr. McGEER: Yes.

The WITNESS: One would say yes to that.

By Mr. Brown:

Q. That would apply to any other factory as well?—A. Quite so.

By Mr. McGeer:

Q. Whether it would apply to any other factory or not is another question; but as long as it is a fact that it applies to this one it is a fact that the committee should consider. Of course, if we are only to consider one part of this thing, I agree these things are entitled to be considered as well; but what I wanted to come to on this particular statement that we have before us is the assumption that this capital is fully employed or this amount of capital should be the basis of assuming the return to the company on this contract; but there is another assumption that the cost plus bases of the contract get the benefit of values which the company have and which are not represented wholly by this working capital.—A. In a measure that is true.

Mr. HOMUTH: Let us clear that up. What value?

The WITNESS: No one can say.

By Mr. Homuth:

Q. I do not think a statement like that should go out or should go on the record unless we have some definition or some explanation of what the values were.—A. I do not think anyone can say.

Q. Anything they are doing in the commercial end of the plant in connection with this contract, again I say they are being paid for it. Hahn's salary and other salaries which are represented by two-thirds have to be paid by the Bren department or the ordnance department of the plant. They are charging the other third against the commercial end of it, and in their costs they will charge that proportion against the production of tools and dies and other equipment and get 10 per cent profit on it. I think before we let a thing like that go we ought to have some explanation of what other values there are.

Mr. McGEER: That was the point I was coming to. I quite agree with my friend Mr. Homuth that that is the fact, but what I am coming to, Mr. Elliott, is this: when you come to assess or to determine the rate of returns that the contractor is going to secure on his investment, all these factors and many others that I have referred to have to be taken into consideration.

The WITNESS: All factors have to be taken into consideration, certainly.

By Mr. McGeer:

Q. And in a contract of this kind, associated as it is with the British War Office contract, and the commercial enterprise of the John Inglis Company, it is not possible to examine the rate of return that will be paid to the contractor until the work is completed and the operations in so far as they have been successful or otherwise, and in so far as their ratio or relationship to the commercial enterprise is concerned, and whether or not it has been successful or otherwise?—A. You cannot tell the profit, I must agree, until the contract is completed.

By Mr. Homuth:

Q. Neither can we tell the cost of the guns until the contract is completed?—A. Very true.

Q. And the machinery moved back to the government warehouse, if that is going to be done.—A. I commented, I think, in opening my remarks this morning that we are dealing in the realm of estimates.

By Mr. McGeer:

Q. Pardon me, I want to complete that. As a matter of fact, I again agree with my friend Mr. Homuth. It has been unanimously agreed that you cannot ascertain the cost of this gun until the work is well along in its actual production.—A. That is so in either case.

Q. That is evidenced by the fact that you are arbitrarily in the contract fixing the basis upon which payments are going to be made for the guns, reducing that as time goes on. That is correct, is it not?—A. That is correct.

Q. But the protection that you have in this contract to limit the total cost of the guns is in the checks and supervisions and the assistance that you get from the Enfield plant which is in operation and production; is that not correct?—A. That is right.

By Mr. Homuth:

Q. But even with all that assistance we cannot tell the cost of the guns until such time as the contract is completed and the machinery returned to the government?—A. That is correct.

[Mr. C. Fraser Elliott.]

By Mr. McGeer:

Q. Neither can you tell, Mr. Elliott, the rate of return that is going to be received by the contractor on his investment?—A. That is correct. I repeat, we are in the realm of estimates.

Q. We are in the realm of estimates?—A. That is correct.

Q. Upon which nobody?—A. That is correct.

Q.—can state as a fact whether the contractor is going to make a profit or not?—A. It is an estimate; he may or he may not. No one now can definitely tell.

Q. Whether the contractor is going to make any profit or not?—A. That is correct.

Mr. GREEN: We have all a pretty good idea.

Mr. McGEER: That is not fair.

Mr. MACINNIS: The statement was made by Mr. McGeer several times to-day and at other sittings that there was a great saving to the Canadian government because the company also had a commercial business. Now, I believe that we must contradict that because any company getting the contract on a competitive basis would also have a commercial business and the same saving would apply. If there is any contention to be made in this connection, the contention is the other way because here we have a company that was practically resurrected, if you like, to handle this contract.

Mr. McGEER: Is not this argument?

Mr. MACINNIS: What was yours but argument?

Mr. McGEER: No, I asked the witness a question based upon a statement from the British War Office.

Mr. MACINNIS: You made a statement in connection therewith every time.

Mr. McGEER: Ask the witness the question.

Mr. MACINNIS: As a matter of fact, I am quoting.

Mr. McGEER: What are you quoting?

Mr. MACINNIS: I am quoting part of the witness' answers before the commissioner in the Royal Commission report at page 38. We have the information from the subcommittee in its report dated January 13, 1938, exhibit 50, that there were a number of companies from whom bids might have been asked. There was the Steel Company of Canada, quite a responsible company, I believe, that was in operation at the time, not something that had been dead for several years. There was the Dominion Bridge Company and other responsible companies. There was the Canadian Car and Foundry Company Limited; there was the Bertram Company and there was the National Steel Company. Now, I submit that there might have been a greater saving had these companies been given the opportunity to bid on the contract. We cannot allow any person here to say that there is a saving to the Canadian company, because this company has a commercial business.

Mr. McCANN: On what ground do you make that statement?

Mr. MCPHEE: The witness should be asked to answer that statement.

Mr. McGEER: May I correct the impression of my hon. friend? I have not taken that position at all. I have never stated in the course of the examination of this witness to-day what other companies might have done or might not have done was even in consideration; what I did ask the witness was whether the fact that this particular company that has the contract was also engaged in a commercial business was not considered by the British War Office as a factor in reducing the cost of the construction of the guns under this contract, and I submitted to the witness a letter of Sir Harold Brown enclosing a statement in which that very fact was mentioned. Now, when we come to the

question whether or not other companies would have taken this contract under more favourable terms than the government is receiving, I think if we could get any evidence on that it would be most important to the committee. But the point that I was dealing with was the fact that the commercial activities of the company were treated in part by the British War Office according to their letter as helping to reduce the cost of the guns under this contract.

There is the other side, of course; but the Bren gun has the whole support of the commercial activities. All that I was pointing out to the committee was—I think I did it in a fair and proper way—the evidence that was before the committee showed that there was another side even to that particular issue. I have no fault to find with my friend's statement that there might be other companies—

Mr. MACINNIS: The same thing would apply, if there were.

Mr. McGEER: I quite agree, but that goes into another question altogether, and that is as to whether or not the Department of National Defence, the British War Office, the interdepartmental committee, were correct in making the selection of this particular firm.

Mr. MACINNIS: The interdepartmental committee was not looking after the selection.

Mr. McGEER: That is a matter of argument. What I want to point out is this, the idea of my questions this morning was not to do what my friend said—

Mr. MACINNIS: That was the inference anyone would draw.

Mr. McGEER: I did not intend that inference to be drawn. I was dealing with an entirely different thing.

Mr. ISNOR: I wonder if I could ask this question in regard to the balance of the statement that has been placed before us?

By Mr. Isnor:

Q. I should like to ask Mr. Elliott if the 6·035 per cent return is the maximum return on the \$267,000 profit which is allowed, according to the contract?—A. That is right.

Q. That is the maximum?—A. Yes.

Q. There is no allowance whatever for loss of any kind, rejections?—A. None are taken into account.

Q. Under that heading?—A. Right.

Q. Then I take it for granted there is a fixed charge of \$9,000 on the mortgage charge you cannot offset?—A. That is the annual interest.

Q. But it is possible for the \$44,500 to be lowered possibly in the first year due to rejections, we will say, of 20 per cent?—A. Yes.

Q. If it worked out at 20 per cent for rejections, 20 per cent of the \$44,500 would be \$8,950, roughly. Therefore, it would only show, according to my figuring, a return of 5·03 per cent?—A. Well, I have not followed your mathematical calculations, but again assuming that they were right, the answer would be "Yes."

Q. I want to know if 6·03 per cent is the maximum?—A. Yes.

Q. There might be factors entering into the profit of \$267,000 which would materially lower the return?—A. Correct.

Mr. FACTOR: That is an estimated maximum.

The WITNESS: No, that is the maximum.

Mr. ISNOR: It is the maximum.

The WITNESS: The positive maximum.

Mr. DOUGLAS: Mr. Chairman, I wonder if the committee could agree—if we have covered this end of the investigation with the witness—that next day [Mr. C. Fraser Elliott.]

we should go on with the questioning regarding the work of the interdepartmental committee? The witness gave evidence on that before the commission, and I assume that he will be willing to give it to this body. Can we assume that next day we shall start examination on the work of the interdepartmental committee, or does the committee wish to continue the investigation along the line we are now proceeding?

The WITNESS: I have not answered your second question, Mr. MacNeil.

The CHAIRMAN: There are two points; Mr. MacNeil's questions will have to be answered, and then we can go on with what you suggest.

Mr. MACINNIS: Could we have that answered this morning, before we adjourn?

Mr. DOUGLAS: Can we have that answer placed on the record?

The CHAIRMAN: I did not quite hear what you said, Mr. Douglas.

Mr. DOUGLAS: If the answer is long, we will hold it over; but if it is short, we might have it put on the record for today.

Mr. McGEER: What is that question? Let me have a look at it. It is five minutes to one now.

Mr. DOUGLAS: The witness can read it into the record right now and we will take it up next day.

The WITNESS: I thought the first question Mr. MacNeil asked was fairly simple, but I am a little astounded at the result. I can almost use the words that I warn the committee that they will not like the next one, if they did not like the first.

Mr. GREEN: Then you had better leave it until the next day.

Mr. McGEER: Let us have it now. We have time to put this on record.

The WITNESS: The second question, and I quote it, was: "Net return on the capital outlay." You may distribute these little sheets of paper on which the answer is to be found. Net return on capital outlay, I think as I explained earlier, included the outlay by the government on account of capital and the outlay of the contractor on account of capital; and that would be a net return on the capital outlay. The capital outlay by our government I have taken as a minimum of \$1,108,000. I use the word "minimum" because some people would like to use spare and component parts, which have a certain life, also as capital; but I have eliminated them. So that the government's contribution of capital is \$1,108,000; the contractor's contribution is \$500,000; this makes a total of \$1,608,000. The calculation is set out on the piece of paper. I am not going to go through that in detail on account of the hour. With \$30,175 being the annual profit on \$267,000, the percentage is 1.87 on the capital outlay by both parties. Then if you refer it to the \$450,000, with \$56,100 annual profit, it is 3.49 per cent on the capital invested. Before we get started on this, I suggest that we go to lunch.

The CHAIRMAN: Gentlemen, we shall adjourn until 11 o'clock on Tuesday morning, if there is no objection.

The committee adjourned at 1 p.m., to meet again on Tuesday, April 25, at 11 a.m.

APPENDIX

JOHN INGLIS CO. LIMITED

SALARIES APPROVED BY THE DEPARTMENT AS CHARGEABLE TO (a) BOTH
CONTRACTS, AND TO (b) CANADIAN CONTRACT

	Amount of annual salary	Per cent chargeable to contracts	Amount chargeable to contracts	Amount chargeable to Canadian contract
Major Hahn..	\$10,000	60	\$6,000	\$4,000
<i>President</i>				
W. T. West..	4,200	60	2,520	1,680
<i>Secretary and Comptroller</i>				
A. L. Ainsworth..	7,500	100	7,500	5,000
<i>Manager of Plant</i>				
W. R. McLachlan..	6,000	100	6,000	4,000
<i>Superintendent of Plant</i>				

JOHN INGLIS CO. LIMITED

SALARIES APPROVED BY THE DEPARTMENT AS CHARGEABLE TO (a) BOTH
CONTRACTS, AND TO (b) CANADIAN CONTRACT

Amount of annual salary	Per cent chargeable to contracts	Amount chargeable to contracts	Amount chargeable to Canadian contracts
\$3,500..	100	\$3,500 00	\$2,333 33
3,120..	100	3,120 00	2,080 00
900..	66 $\frac{2}{3}$	600 00	400 00
1,300..	100	1,300 00	866 66
1,800..	100	1,800 00	1,200 00
1,800..	100	1,800 00	1,200 00
1,800..	100	1,800 00	1,200 00
1,300..	100	1,300 00	866 66
3,000..	100	3,000 00	2,000 00
1,300..	100	1,300 00	866 66
1,620..	100	1,620 00	1,080 00
1,020..	100	1,020 00	680 00
780..	100	780 00	520 00
1,800..	100	1,800 00	1,200 00
1,920..	100	1,920 00	1,280 00
900..	100	900 00	600 00
1,300..	100	1,300 00	866 66
1,440..	100	1,440 00	960 00
1,800..	100	1,800 00	1,200 00
1,800..	100	1,800 00	1,200 00
900..	100	900 00	600 00
1,320..	100	1,320 00	880 00
540..	100	540 00	360 00
1,300..	100	1,300 00	866 66
900..	100	900 00	600 00
1,020..	100	1,020 00	680 00
2,700..	100	2,700 00	1,800 00
900..	100	900 00	600 00
1,300..	100	1,300 00	866 66
900..	100	900 00	600 00
1,680..	100	1,680 00	1,120 00
2,700..	100	2,700 00	1,800 00
1,800..	100	1,800 00	1,200 00
1,200..	100	1,200 00	800 00
520..	100	520 00	356 66
2,700..	100	2,700 00	1,800 00
1,800..	100	1,800 00	1,200 00
1,800..	100	1,800 00	1,200 00
300..	100	3,000 00	2,000 00
1,800..	66 $\frac{2}{3}$	1,200 00	800 00
1,020..	66 $\frac{2}{3}$	680 00	453 33
1,800..	66 $\frac{2}{3}$	1,200 00	800 00
1,200..	66 $\frac{2}{3}$	800 00	533 33
1,560..	66 $\frac{2}{3}$	1,040 00	683 33

JOHN INGLIS CO. LIMITED—*Concluded*

Amount of annual salary	Per cent chargeable to contracts	Amount chargeable to contracts	Amount chargeable to Canadian contracts
4,800..	66 $\frac{2}{3}$	\$3,200 00	\$2,133 33
2,700..	66 $\frac{2}{3}$	1,800 00	1,200 00
1,800..	66 $\frac{2}{3}$	1,200 00	800 00
900..	66 $\frac{2}{3}$	600 00	400 00
900..	66 $\frac{2}{3}$	600 00	400 00
2,400..	66 $\frac{2}{3}$	1,600 00	1,066 66
1,300..	66 $\frac{2}{3}$	866 66	577 77
3,500..	100	3,500 00	2,333 33
520..	66 $\frac{2}{3}$	346 66	331 11
480..	66 $\frac{2}{3}$	320 00	213 33
900..	66 $\frac{2}{3}$	600 00	400 00
2,700*	100	2,700 00	1,800 00
2,700*	100	2,700 00	1,800 00
1,500*	100	1,500 00	1,000 00
1,200*	100	1,200 00	800 00
1,800*	100	1,800 00	1,200 00
1,800*	100	1,800 00	1,200 00
2,700*	100	2,700 00	1,800 00
1,140*	100	1,140 00	760 00
1,020*	100	1,020 00	680 00
2,400*	100	2,400 00	1,600 00
1,080*	100	1,080 00	720 00
1,020*	100	1,020 00	680 00
2,400*	100	2,400 00	1,600 00
3,000*	100	3,000 00	2,000 00
1,040**	100	1,040 00	693 00
1,500*	100	1,500 00	1,000 00
720*	100	720 00	480 00
1,200*	100	1,200 00	800 00
1,020*	100	1,020 00	680 00

NOTE.—*Shown at monthly rate on statement received from Department of National Defence.

**Shown at weekly rate on statement received from Department of National Defence.

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Canada. Public Account. Standing Committee

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 10



Tuesday, April 25, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Beaubien, Bercovitch, Brooks, Factor, Ferland, Fleming, Fraser, Golding, Green, Héon, Homuth, Isnor, Kennedy, MacNeil, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Purdy, Rickard, Slaght, Stirling, Thauvette, Wood.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance.

Exhibit No. 10: The clerk filed letter, dated April 24, 1939, from the President, John Englis Co. Limited, together with statement of capital employed by the company.

At the suggestion of the Chairman:

Ordered,—That lists of vouchers covering expenditures approved in connection with the Bren machine gun contract, produced by the Department of National Defence for the inspection of the Committee, be returned to the Department.

Examination of Mr. Elliott was continued.

The Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

TUESDAY, April 25, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum so we may as well proceed. At the last meeting, at the finish of an argument about the amount of money employed by the John Inglis Company, according to the record I believe I suggested that we would endeavour to procure from the John Inglis Company the division of capital used as between the Bren gun or the ordnance branch and the commercial branch. I presume it is the wish of the members of the committee that this statement go on the record. Shall I read it and hand it to the reporter?

Mr. HOMUTH: Yes.

The CHAIRMAN: This is the statement:—

ANALYSIS ESTIMATED CAPITAL EMPLOYED IN EACH DIVISION OF COMPANY

Cash invested by original shareholders.. . . .	\$ 330,993 78
Capital subscribed by original shareholders' payment not yet due.. . . .	19,004 22
	<hr/>
	\$ 349,998 00

Estimated loan requirements based on total projected sales—period April 1, 1938, to March 31, 1943..	300,000 00
	<hr/>

Total estimated capital to be employed.. . . . \$ 649,998 00

CAPITAL ESTIMATED TO BE EMPLOYED DURING PRODUCTION PERIOD OF "BREN" CONTRACT

Commercial division.. . . . \$ 218,487 00

Ordnance division:

Re Canadian contract.. . . .	\$ 287,674 00
Re British contract.. . . .	143,837 00
	<hr/>
	\$ 431,511 00

Total estimated capital to be employed.. . . . \$ 649,998 00

Mr. MACNEIL: Who prepared the statement?

The CHAIRMAN: It was prepared by the company and was accompanied by a letter from Major Hahn. Do you want me to read the letter?

Mr. GREEN: Read the letter as well.

The CHAIRMAN: The letter reads as follows:—

JOHN INGLIS CO. LIMITED

14 Strachan Avenue,

TORONTO, Canada, April 24, 1939.

Mr. A. L. BURGESS,
Clerk of the Public Accounts Committee,
House of Commons,
Ottawa.

Dear SIR,—Replying to your letter of the 20th instant, I am attaching an analysis of the estimated capital to be employed in connection

with the manufacture of "Bren" Machine Guns, under both the Canadian contract and the British contract, and the capital employed in respect of the company's commercial business.

It is pointed out that these figures are based upon the company's projected sales and budgets from April 1, 1938, to March 31, 1943.

The company's commercial sales expectation is based upon a projection which contemplates reaching in the first five years of operation, the average sales of the predecessor company.

Your very faithfully,

JOHN INGLIS CO. LIMITED,

(signed) J. E. HAHN,

President.

Mr. GREEN: I did not get how the total of \$431,511 was made up?

The CHAIRMAN: The total of \$431,511 is the total of the capital employed in the ordnance division, and is made up by the employment of \$287,674 on the Canadian contract and \$143,837 on the British contract.

Mr. GREEN: We will have the opportunity of cross-examining Major Hahn on that?

The CHAIRMAN: Yes. That is the basis we agreed on the other day to work on, to avoid spending any more time on it.

Last week I mentioned that we should like to send the vouchers back to the treasury department. I believe Mr. MacNeil suggested we should keep them until this week. I wonder if we can send them back now?

Mr. MCPHEE: I believe Mr. MacNeil said he wanted to keep them a couple of days.

The CHAIRMAN: The treasury department is asking for them. We can get them back if necessary, but if there is no objection to that we will send them back to-day.

Mr. C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, recalled.

The WITNESS: I think the last thing we did at the last meeting was to answer questions that Mr. MacNeil asked with regard to the net return on the capital outlay, and I handed in a very short statement. If there are no questions on that; that is, in so far as the contract in its financial aspects are concerned, I am through unless someone wants to develop it further.

By Mr. Green:

Q. You did not expect to get away with the last statement without questions—A. I am not full of expectations in any direction on that score.

Q. The second statement which you submitted takes no account at all of the fact that there is a commercial division?—A. That is right.

Q. The figures we have to-day from Major Hahn show that at least one-third of the capital is to be invested in the commercial division?—A. It shows a portion of the capital that belongs to the commercial division. I did not listen closely to the letter; if one-third is right—

Q. I think it works out exactly at one-third.—A. That is correct.

Q. Your statement would have to be changed to meet that situation.—A. I would think so, yes.

Q. Your statement also includes over \$1,110,000, which is government money?—A. That is an answer to the question; your statement is correct.

Q. The statement does not show any net return on capital outlay by the Inglis company?—A. No, because—

[Mr. C. Fraser Elliott.]

Q. It shows net return on capital return of the government, not the Inglis company?—A. That is true, because the question I am answering I thought required that, and I still think so, capital outlay by both parties.

Q. The statement is not of interest in so far as the Inglis company alone is concerned?—A. I think it is significant in this plant there is employed in the role of capital \$1,608,000. It may have its subdivisions, but that is the capital unquestionably that is related to that company which is making the Bren gun contract.

Q. It is not related to that company; the bulk of it is government money.—A. Well, \$1,108,000 is certainly put up by the government, and the contractor invested \$500,000, as we discussed in the opening part of this statement, these last two statements. It is a question whether the capital as a whole is utilised for the performance of any contract offered, large or small, or on the contrary as is suggested the capital necessarily is broken down into as many parts as there are several contracts. That is a matter of opinion and view, and I have merely answered the question as I believed and still believe it requires to be answered.

By Mr. Brooks:

Q. According to the statement the government has invested two-thirds of the capital and the Inglis Company would have 100 per cent of the profit?—A. Correct.

By Mr. Green:

Q. There is no profit to the government at all; the profit is all to the Inglis company. You are mixing two things.—A. I would say there is a profit, depending upon how the contract was made, because by reason of the contract Canada is getting into its possession capital assets at a cost less than the actual cost by \$509,000.

Q. Without taking into account any depreciation?—A. Well, you have to buy the machines before you start depreciating. I do not think depreciation comes in there. You buy new machines, capital machinery, and the total cost is reduced to Canada by reason of the contract by \$509,000 as a minimum.

Q. We threshed that all out before, but we did not come to any agreement.—A. No; I am just taking up with you the fact that you say there is no profit to Canada. I say there is a profit.

Mr. SLAUGHT: The witness has answered the question and has said Canada will make a profit.

Mr. McGEER: The evidence is very clear on that point.

Mr. GREEN: No. I think it is far from clear in that regard. However, each of us is entitled to his own opinion.

Mr. McGEER: It is a matter of how you look at it; it is a matter of argument.

By Mr. Homuth:

Q. The contract runs for ten years?—A. Far from it. The contract qua contract does not run for ten years. We are talking about making guns in this contract. These guns have to be completed within six years or there is a breach of the contract. Then, if there are further contracts the licence feature continues.

Q. And runs for ten years?—A. Yes, but not the contract.

Q. you have depreciation on machinery for each of the six years, so that at the completion of the contract your machines, unless they are kept in shape, will have depreciated that much. Your capital asset will have depreciated that much. Then, over and above that, under the contract, whether the repairs or

other requirements are necessitated as a result of wear and tear, depreciation on the machinery is paid for by the Canadian government.—A. Well, answering the first part, before coming to repairs, the depreciation was taken care of in the statement I submitted for four years only for this reason, that we bought our machinery in the first two years of preparation. The question then arises, are you going to start depreciation on the machines because they are in your possession before you get them set in use? I think not. If others think so, the statement is wrong to that extent. After the machines do go into actual use and production in the third to the sixth years inclusive—and that is four years—I take 10 per cent depreciation, which on that kind of machinery, I think by general agreement it may be said to be rather high. However, we wrote off 40 per cent, and then the machines are entirely at our disposal. We own them; we can move them and do what we like with them. We have to house them some place, and if we put up a building of our own we are out the use of our money for building costs except for use in housing; but if we house them in this plant we pay rent and the result is the same; therefore it is our machinery at the end of six years, after having suffered actually four years of depreciation.

Now, as to the repairs, the second part of your question, these are paid for by the government, as you say.

Q. As we go along?—A. That is correct.

Q. Then, the value of the Ross rifle machinery, which is being installed, is just an estimated value, because we do not know what it is going to cost us to put that machinery in shape for the production of Bren guns?—A. Well, I do not know what it would cost to put it in shape, and the cost, I agree, was an estimate.

Q. We do not know that. It is being done in the commercial end of the plant?—A. Oh, I do not know about that; you will have to ask someone else about that who has been down there and has seen it.

By Mr. Green:

Q. Then your figure of \$500,000 odd does not allow for any depreciation at all?—A. No, because I repeat the machinery we originally buy, which we pay for up to 100 per cent, will only suffer depreciation when we put it into use. But the initial cost of acquiring the capital machinery was reduced by reason of these contracts by \$509,000 at least.

Q. The price of the machinery was not reduced at all. You explained to us the other day the saving was by reason of Canada getting back this machinery after the contract was through.—A. Yes, that is correct. I repeat that. The machinery must be bought; whatever its price is we only pay two-thirds of that price, the other one-third is paid by England and the machinery comes to us.

Q. Two-thirds means the \$309,000 according to the statement you gave us before?—A. True, but you must also look at the tools, dies and jigs, which I also take in as this machinery, \$420,000—I am speaking from memory.

Q. The point is you are not allowing anything for depreciation.—A. On the tools, dies and jigs? They are written off as explained, if you look at the summary I gave you. If you look at that summary you will note on the original summary I put in here—I have not got a copy of it now—

Mr. SLAGHT: As I understand it the witness has told us that Canada would have to write a cheque for that many more dollars if it had not been arranged that way.

By Mr. Green:

Q. You are not saying that?—A. Yes, definitely; that is absolutely accurate, as I understand it.

Q. How do you get those figures?—A. Well, if you go back to the financial basis of the Bren contract schedule that I submitted, you will find that the

[Mr. C. Fraser Elliott.]

capital machinery was put in at a cost of \$1,108,000. Of that cost the United Kingdom will pay \$309,333, which is one-third, and Canada will pay \$738,666. That is in the second part of the first statement I submitted. Then, if you come to the tools, dies and jigs, the total cost of them is estimated at \$420,748; England pays \$140,249 and Canada pays \$280,499. Now, then, of these two items that are set out that England pays, if you add them together, they come to the sum of \$509,000, and if England did not pay that and we were yet to buy the machinery to have the guns made, the dominion would have to write its cheque for \$509,000.

Q. You take no account whatever of the fact that there are 12,000 guns being manufactured and Canada would require only 7,000.—A. Not in that statement, because I am speaking of the cash statement; that cash would have to be paid out. I do later take into account that the guns being made to the quantum of 12,000 effect a saving of about \$800,000, but that is not a money outlay.

Q. That would be equally true if the guns were made in a government arsenal or by any other firm in Canada?—A. Quantum production always reduces the cost. When you use the same machinery for a greater quantum it always reduces the cost.

Q. The fact that they are making 12,000 guns instead of 7,000 guns would mean additional machinery?—A. No, not necessarily. It means that machinery perhaps working faster, perhaps working longer, but with the same capital outlay.

Q. You do not know that?—A. This would be the statement, no matter what they did with the capital outlay to get that machinery. That machinery will make 7,000 guns or 12,000 guns. To get the unit cost all you have to do is to divide by 7 or 12. That is, to divide 7 or 12 into the capital cost and you get the unit price.

By Mr. Homuth:

Q. In a given period they have to turn out 12,000 guns?—A. Yes.

Q. I do not think you are able to answer the question that with less machinery they could not have turned out 6,000 guns in the same time, can you?—A. With less machinery? I hope they have not over-bought machinery or our own ordnance would be in a bad way.

Q. They may have purchased extra machinery because they are turning out 12,000 guns instead of 7,000?—A. No; I would say there is room for criticism if they did that.

Q. It is a matter for experts to answer?—A. I would certainly look into it if I thought that possible.

Mr. MCPHEE: Why not accept the answer?

Mr. GREEN: We were not led to believe that in Toronto.

Mr. MCPHEE: You are bound by the answer which he gives you.

Mr. ISNOR: What were you led to believe, if I may ask you, Mr. Green? It is all clear in my mind, but I forget that part.

Mr. GREEN: Oh, you know there are a certain number of machines to be supplied, and as I understood it they are practically all the same type, and, of course, the idea being they would be needed to make the larger number of guns.

Mr. GOLDING: When did they say that to you?

Mr. GREEN: That is what I understood.

Mr. SLAGHT: Who said that?

Mr. GREEN: Some of the high pep talk people we had down on that trip.

Mr. SLAGHT: That is not answering the question.

Mr. McGEER: There was no such statement made, because we were not taking evidence there.

Mr. GOLDING: Do you know who made that statement, Mr. Green?

Mr. HOMUTH: You were not taking evidence, but you were getting information.

Mr. BERCOVITCH: I suppose Colonel Drew made that statement.

Mr. McGEER: We went down there to ascertain whether it was a broken down boiler plant or a perfectly good plant, and unfortunately for you we ascertained the latter.

Mr. GREEN: I do not know.

Mr. ISNOR: I think, Mr. Chairman, it is just as well for us to assume that you can produce either 7,000 or 12,000 guns from the same machinery as it is to say that you require more machinery to produce 14,000 guns. I believe that is an every-day occurrence. A machine shop is not always working to the full capacity. I believe it is a fair comparison to say that I know one mine in Nova Scotia that is only producing 52,000 tons of coal but its capacity is 100,000 tons of coal. It requires the exact same equipment to produce 52,000 tons as it does if they were producing to capacity.

Mr. SLAGHT: On the other hand, I would say that if you were laying out a 12,000 gun production plant you would spend a bit more money than if you were laying out a 7,000 gun production plant. But why do we not wait until the men are here?

Mr. GREEN: I think that is the answer.

By Mr. Brooks:

Q. On a further reference to this statement, I see your capital investment is put at \$1,108,000 as far as the government is concerned, and \$500,000 from the contractor. Your return is \$56,100. I believe you said that the government would receive no portion of the \$56,100; so the contractor on his investment of \$500,000 receives a return of \$56,100. Is that not correct?—A. From the statement in front of you that would be the conclusion, yes.

Q. That would amount to something like 10 per cent?—A. 10·6 per cent.

Q. To the contractor?—A. On the two contracts.

By Mr. Green:

Q. It is more than 10·6 per cent; it is near 11 per cent on that basis and that does not take into account the commercial division.

By Mr. Brooks:

Q. I am taking the statement here, that is all.—A. That is right.

By Mr. Green:

Q. On this investment of \$500,000 by the contractor, \$150,000 of that consisted of first mortgage to secure bonds, did it not?—A. That is correct.

Q. And that was given by the company the day after they got the Bren gun contract?—A. Oh, I do not know whether it was the day after or not. I would say on the evidence before us that it was not, because Hahn wrote the department a letter mentioning the mortgage as a liability of the company even before the contract was signed; and then you will remember that Dun & Bradstreet submitted a statement to us showing the mortgage was there, and it was in existence before this contract was signed.

Q. Have you looked at the prospectus of the company at all?—A. No; I saw it some months ago for a while, had it a few minutes in my hand, but I don't even know where that was; I think it was in my office. I really have not looked at it.

Q. It is exhibit 362?—A. Yes.

[Mr. C. Fraser Elliott.]

Q. And that exhibit says: "Amount of mortgage indebtedness ranking ahead of capital stock. First mortgage and deed of trust dated as of the 1st day of April, 1938 . . ."—A. It may have been renewed, you know.

Q. That was the day after the Bren contract was signed. This exhibit goes on to state ". . . made by John Inglis Company Limited in favour of the Toronto General Trusts Corporation as trustees, securing the repayment of the principal amount of \$150,000 bonds of John Inglis Company Limited and interest thereon at the rate of 6 per cent per annum to be fully retired on or before the 1st April, 1943."

Mr. McGEER: What is the number of the exhibit?

Mr. GREEN: Exhibit No. 362.

The WITNESS: I accept the statement of fact that the mortgage was dated that day; but if you want me to comment on it, it probably may have been a renewal of it. All I can say is the evidence is in file and on the record that the mortgage existed prior to that date.

By Mr. Green:

Q. You are showing this as an investment for this amount of \$150,000?—A. That is right.

Q. Yet actually the prospectus shows that it contained an obligation by the Inglis company itself, not by the manufacturer.—A. That is what I mean; it always has been an obligation of the Inglis company so far as I know.

Q. And was not undertaken until after the Bren gun contract?—A. I would say the evidence I have shows to the contrary. You have evidence there that indicates it is after that; that is a prospectus, and what I am referring to is sworn evidence.

Q. Have you got evidence here? Will you look at exhibit 285.—A. I have it before me.

Q. That is an offer of this man Nurse, acting for the Hahn interests to the Toronto General Trusts Corporation, and dated the 23rd September, 1936.—A. Yes.

Q. You will see that the offers are as follows: "The purchase price shall be the sum of \$250,000 . . ." Then the payments are set out and on page 3 of the offer you will find at (k) the following:—

The balance of \$150,000 of the purchase of \$250,000 shall be satisfied by the purchaser, his nominees or assigns, giving to you bonds in the principal sum of \$150,000 with interest at 6 per cent per annum which shall be issued and dated as of the day of closing and secured by a first mortgage and deed of trust of the same date on all the property and assets herein described as . . .

Then if you will turn to exhibit 284 you will find it is a chronological summary of the financial history, capital structure and transactions up to the 15th September, 1938. I think you will see there that extensions of time are given by the Toronto General Trusts Corporation to the assigning of this mortgage for \$150,000. The dates are all listed and they come right down until on page 3 of this exhibit 284 you will find 31st March, 1938, extension of time by the Toronto General Trusts. That date is the date the Bren gun contract was signed, incidentally. This is how it reads:

Extension of the time by the Toronto General Trusts Corporation for closing and the delivery of \$150,000 of bonds in connection with the purchase of "Inglis property."

Then on the 8th of April—"Minute issue of \$150,000 first mortgage bonds." So I think that that, together with the prospectus, shows pretty conclusively that the bond issue came after the Bren gun contract was signed?—A. That would appear to be so from the evidence you have read.

Mr. SLAGHT: Presumably an obligation made long before.

Mr. GREEN: An obligation by Nurse.

The WITNESS: Himself or his nominee.

Mr. SLAGHT: Has it been made clear as to the date on which they took possession from the trust company?

Mr. GREEN: No, I do not think so.

The WITNESS: No. This evidence, I suggest, might better be had from the man who was in the transaction at the time. But I repeat from what you have read it looks exactly as you say.

By Mr. Green:

Q. So that this \$150,000 which you credit them with having as capital invested was not capital investment at all but a bonded indebtedness undertaken by the Inglis company the day after they got the Bren gun contract?—A. According to the evidence you have read I would say the answer is "Yes." According to the evidence submitted to the committee by letters referred to in my previous evidence the mortgage was already existing in one form or another. Whether this was a renewal, I cannot say.

Q. But if you will check those documents through you will find, I think, that the mortgage for \$150,000 existing was actually an old indebtedness to the bondholders of the old John Inglis company?—A. I would be willing to accept that. I really do not know. I am giving evidence I really have not followed in the manner you have indicated.

Q. Actually it was for more than \$150,000, it was for dollars \$200,000 odd, was it not?—A. I am not sure of that. I am going, I repeat, on the evidence that is in the file.

Q. Will you refer again to exhibit 285 which is the offer by Nurse to the Toronto General Trusts?—A. This is the first time I have ever seen this offer.

Q. Will you read the whole of the first page?—A. Yes. This is addressed to the Toronto General Trusts Corporation, and it is signed by Stan. Nurse and the Toronto General Trusts Corporation:—

Dear Sirs,—The writer, hereinafter called the "purchaser," wishes to submit to you the following offer for the consideration of the holders of the first mortgage bonds created under a certain mortgage and deed of trust dated as of the first day of April, 1932, between the John Inglis Company Limited, of the first part, and the Toronto General Trusts Corporation, as trustee, of the second part, created to secure an issue of 6 per cent first mortgage bonds of the company to the aggregate principal amount of \$300,000, of which there are presently outstanding bonds in the aggregate principal amount of \$285,000, at the meeting of the said bondholders called to be held at the office of Premier Trust Company, 15 Richmond Street, West, in the city of Toronto, on the 6th day of October, 1936, or any adjournments thereof.

Q. That shows you the bonded indebtedness that was outstanding?—A. That is right.

Q. I may be wrong but so far as I can see there was no indebtedness replacing that until after the Bren gun contract was signed; the new Inglis company entered into an indebtedness of \$150,000?—A. On the documents to which you referred, and which I have seen for the first time, I would think with you in that connection.

Q. Then this \$150,000 should not be included in the capital invested?—A. Oh, yes, because on the evidence we have before us there was that liability of the John Inglis company even before the contract was entered into. In other words, you have a set of evidence I never saw before, and I agree with

[Mr. C. Fraser Elliott.]

your conclusion. On the other hand I suggest to you that we have a set of evidence which indicates that the mortgage was there as an obligation of the John Inglis company before the contract was entered into.

Q. If this evidence which has been brought out this morning is correct, then the capital invested should be shown as \$350,000 instead of \$500,000?—A. You are speaking as at the time the contract was entered into, a day prior to this?

Q. Yes.—A. I am beginning to start to analyze it. This offer is dated the 21st of September, 1936. You told me that the bonds were not actually issued until the day after—

Q. There was no bond obligation for \$150,000 until after the Bren gun contract was signed?—A. Where again is the evidence of that?

Q. Go through the chronological summary of financial history, exhibit 284.—A. Getting down to the 31st of March, 1938, it said, "extension of the time." The obligation was always there. The 31st of March was merely an extension of the time.

Q. Then look at the prospectus.—A. I have never looked at that.

By Mr. McGeer:

Q. Would you mind looking at exhibit 284, the 12th of October, 1937? The amount paid under this agreement was \$16,500. Then the 18th of November, 1937, the amount paid is \$21,500. Then if you go to the 28th of February you will find that the amount paid has increased to \$46,500. Surely that was all part and parcel of carrying out the original offer which carried with it the responsibility, if it did go through, of taking up that \$150,000 mortgage obligation?—A. Well, add to that the 31st of March in 1938, to which reference was made by Mr. Green, for an extension of the time relating to an already existing obligation.

By Mr. Green:

Q. No. The obligation is an obligation by Nurse only.—A. Or his nominees
Q. There is no obligation on his nominees until they sign something.—
A. Well, I would say if I did something on behalf of a nominee of mine that he would be liable. At least, I would not want to undertake it myself.

Q. You are a distinguished lawyer and you would not contend for one minute that there would be an obligation until something is signed.—A. I agree with that.

Q. That a man's nominee is bound.—A. I agree with that. But I have my action against the person for whom I am acting but the third party has not against my nominee.

By Mr. McGeer:

Q. You will agree that where a proposal of this kind is being consummated all of the liabilities that are established in the original offer, whether it be carried through by the original maker or an assignee of that original maker, are really obligations from the date when the proposal is made.—
A. Certainly.

By Mr. Green:

Q. But they are not obligations on the nominee, are they, until he signs?—A. Certainly not.

Q. In this case the John Inglis company were careful not to sign anything.—A. Both those statements are correct.

By Mr. Homuth:

Q. And they did not make their final payment of \$53,500 until after the Bren gun contract was signed?

Mr. McGEER: But they did make payments up to \$46,500.

Mr. GREEN: Their payments were very much in arrears right through, I think you will find. They were not taking too many chances.

Mr. McGEER: We are getting again into the realm of picture language and suspicions.

Mr. BERCOVITCH: That is all.

Mr. McGEER: There is nothing to back them up.

Mr. GREEN: There is plenty of ground on which to draw them.

Mr. McGEER: But suspicions do not mean anything.

Mr. SLAGHT: The commissioner found there was no wrong-doing and no ground for suspicion of wrong-doing.

Mr. HOMUTH: No one has suggested any wrong-doing in this committee, or corruption, and you keep harping on that all the time. We never even suggested it.

Mr. SLAGHT: Your friend is talking about suspicion and grounds for it, and I raised the point that the commissioner does not agree with him, that is all.

The WITNESS: The only other thing, gentlemen, that I have in my mind that was raised by the committee was some question, I think, By Mr. Douglas. He wanted to go into some evidence that the interdepartmental committee had leading up to the contract. I observe he is not here to-day and perhaps no one else wants to take it up for him.

By Mr. Green:

Q. The same remark with regard to the \$150,000 indebtedness would apply with equal force to the statement we reviewed at the last sitting of the committee, would it not, because in that former statement you showed \$500,000 as the capital actually invested?—A. Yes. I am willing to say, if the committee is agreeable, that I have exhausted my evidence.

Mr. HOMUTH: We hope it is only your evidence that is exhausted.

Mr. GREEN: Mr. Chairman, somebody suggested that we go into the proceedings of the interdepartmental committee with Mr. Elliott. I think it was Mr. MacNeil.

The WITNESS: It was Mr. Douglas, I think; either one of the two. Perhaps it might be of interest to indicate some of the changes that were made by the interdepartmental committee, observing all the time that the chairman of the interdepartmental committee was also a member of the defence department; therefore, I would not like any implication that the changes were against the Department of National Defence because they were part and parcel of the making of them. If the committee is interested I would indicate a substantial number of changes that were made after the contract came to the interdepartmental committee.

By Mr. Homuth:

Q. That was after the contract had been submitted by the department.—A. That is right.

By Mr. Slaght:

Q. Submitted for consideration, criticism and approval?—A. That is right. Would the committee wish me to proceed with that?

By Mr. Green:

Q. Would it be simpler if you went over the minutes of the different meetings of the interdepartmental committee?—A. That does not show the [Mr. C. Fraser Elliott.]

changes in the contract; that is more conversation on matters related to the contract though not necessarily in it or of it. I shall do whatever the committee wish, though.

By Mr. Isnor:

Q. You have gone over it, Mr. Elliott, and prepared some digest of what took place?—A. I have prepared a digest of what took place.

Mr. ISNOR: I think, Mr. Chairman, we had better hear the statement.

The WITNESS: After the contract was received on the 31st of December, it was studied and the following changes made. I have numbered them.

No. 1. The clause "exclusive licence . . . for a period of ten years" was changed to "a licence (not exclusive)."

That was section 1.

No. 2. The freedom of selling or issuing stocks or bonds of the company was taken away and there was inserted a clause restricting the selling of stocks and bonds by the company to consent by the minister.

By Mr. Homuth:

Q. That was about the last thing you considered in your committee, was it not?—A. Yes, that is substantially correct.

Q. The last night?—A. When I say it was the last meeting, it was in the course of, I think, the third meeting mentioned, but it was substantially dealt with at the last meeting.

By Mr. Brooks:

Q. Could you give us the reasons for each change?—A. Well, unless they really speak for themselves. The item dealing with the freedom of selling or issuing stocks or bonds by the company without the consent of the minister really speaks for itself.

Q. That is obvious, yes.—A. That is in the proviso to section 1.

No. 3. An outright lump sum payment for pre-contractual expenses was converted to "actual cost, supported by vouchers." That has reference to the \$20,000 item.

By Mr. Green:

Q. In connection with the point you dealt with first would that have anything to do with the assignment of the contract?—A. Oh, no. The first one is the exclusive licence for a period of ten years. We converted that into a non-exclusive licence.

Q. You are going to deal with the assignment question, are you?—A. Yes, I shall be very glad to.

No. 4. The different percentages of compensation for classes or divisions of the work were cancelled. That effected a net saving of \$15,500, and it also secured uniformity and simplicity. We arbitrarily dropped \$31,210 to reduce the profit to a round figure of \$450,000 for both contracts. That was explained in the financial statement which I gave you.

No. 5. The allowance for depreciation was to have been based on a "certified audited statement of such assets and their value." That is the appraised or book value. This value on the books was upwards of \$1,000,000. This was reduced to \$280,000 which approximated the cost. It is to be observed that it is again reduced to the portion applicable to buildings as distinct from machinery and again reduced to "the portion used in the government contracts."

Q. The \$280,000 covered everything but the land?—A. Yes, and it has to be reduced down to the portion of the building used in the contract. It really is not a very big item now when you take the depreciation of that portion of the building each year.

No. 6. Nine per cent as profit on depreciation was wholly eliminated.

No. 7. The contract was converted from a percentage on cost without any limit to a percentage on cost with a fixed limit for the Canadian contract of \$267,000, and that limit was irrespective of the actual cost. That has reference to section 4. This perhaps was the greatest safeguard in my judgment that the interdepartmental committee introduced into the contract and is to be linked with the exclusive licence being non-exclusive and the assignment being limited to the consent of the department.

No. 8. The contract was converted from a limited control to direct control of indirect services or labour, and required that all such costs required the prior written approval of the department. That refers to section 5 (f).

No. 9. All salaries and wages were made subject to the approval of the government, which was not the case before.

No. 10. Audit fees heretofore allowed as a cost were disallowed. The reason for that is that we believed the audit fees were simply the business of the company itself to check its own affairs and keep track of its own accounts and check dishonesty, and the like, and all the benefits of an audit survey.

No. 11. Rent during the active operating currency of the contract, heretofore allowed under the old section 5 (j) was disallowed. The over-riding percentage on costs was deemed sufficient for that purpose, and that you will find in section 5 (e).

No. 12. Legal costs for the preparation of the contract as a cost to the crown were struck out. That is in section 5 (g).

No. 13. Interest on bank loans as a cost was eliminated except new money borrowed for prior approved plant construction. That is section 5 (r).

No. 14. The "incentive clause" as contained in the British contract was inserted in the Canadian contract. That has reference to section 6 (a).

That incentive clause, I should say, was suggested by the English authorities and adopted by the committee although there was some division on it.

No. 15. The right to take over the Inglis plant for cause was extended from "unreasonable delay or default" to include also "incurring of any excess costs" by the company.

No. 16. Formerly the provisions for cancellation of the contract, without cause, entitled the company to an "amount of \$40 for each Bren gun, of the number contracted for, remaining undelivered as of the date of cancellation." It will be observed that this clause for cancellation had been effective before delivery commenced and might have resulted in payment of a very substantial sum. However, following the British war office in this regard this was cut down to \$75,000. Canada's share was and is 7/12 thereof, or \$43,750.

By Mr. Green:

Q. In other words, if the contract was cancelled the John Inglis company would get \$75,000.—A. If both contracts are cancelled.

Q. The idea was that if the work was stopped they would get \$75,000?—A. That is correct, for both.

By Mr. Homuth:

Q. Might there have been the thought of a change of government in that?—A. Oh, I would not think so.

Mr. MCPHEE: That would be an impossibility.

The WITNESS: In connection with that \$75,000 you will observe that that is reduced by the amount of the profit that had been paid in proportion to the whole profit; that is, if one-half of the total profits payable had been paid and then the contract cancelled, then one-half of this liability was struck out.

[Mr. C. Fraser Elliott.]

By Mr. Green:

Q. What it amounts to is that if the contract were cancelled to-morrow the Inglis company would get \$75,000, plus 10 per cent, and so on?—A. No, that is not correct. Less the portion of the total profit that has already been paid to them; that is the total profit paid to them to this date in relation to the total profit provided the like portion of this \$75,000 for both contracts is lost to the contractor.

By Mr. Homuth:

Q. What profit could have been paid them up to date on the work in the commercial end?—A. You will observe in that statement the preparatory overhead; we are paying them 10 per cent on that. On the purchase of tools, dies and jigs or the manufacture of them we are paying them 10 per cent. So I would say we would already have paid them some portion of the profit towards that \$267,000.

Q. Do you think that is clear? I thought that clause only dealt with the profit that was made on the production of the guns?—A. Oh, no.

By Mr. Green:

Q. Mr. Elliott, would you read that again. It is 18(b).—A. Yes.

If the contract is so cancelled—let me pause to say that we make payments by way of profit before production as I have read—before production has commenced, the party of the second part will be paid the sum of \$43,750.

That is 7/12 of the \$75,000 and, parenthetically, I may say that that has been increased to \$50,000 by agreement because England said, "Inasmuch as we are paying one third of the cost of the entire machinery we think you should assume two thirds of the risk of cancellation." That was adjusted so that you can really read \$50,000 there.

If the contract is so cancelled before production has commenced, the party of the second part will be paid the sum of \$50,000; if the cancellation is effected after production has commenced, the sum of \$43,750 hereinbefore mentioned, shall be reduced by an amount which bears the same ratio to \$50,000 as the total amount of profit actually paid or due to the party of the second part under this contract bears to the over-riding maximum profit (\$267,000) referred to in section 4 (b).

I agree. You are right, Mr. Green. My memory was that it ran through everything.

Q. If the contract were cancelled now the company would get \$50,000, plus all their costs, plus 10 per cent on those costs from Canada.—A. I would think that would be right.

Q. And they would also get \$25,000 from Great Britain?—A. Oh, yes, if Britain cancelled hers also, and they are so closely interwoven it is a reasonable inference that if one cancelled they would both cancel.

By Mr. Homuth:

Q. So that the profit made, as I said, in the preparatory period, so far as production of these things are concerned, would not come off?—A. I would not think so on a reading of that, although I was under the impression from memory that it was as I first stated, but I stand corrected on that.

By Mr. Green:

Q. The same thing would apply if the company went ahead in the preparatory period, say, for another six months or even a year without actually producing, they would get their costs?—A. Oh, no, I would not agree with that.

I do not think it is possible, Mr. Green, to have a breach of your contract and not suffer the detriments that would flow from the breach and at the same time ask for the benefits of the contract.

Q. There need be no breach.—A. There would be a breach if they are not in production by two years.

By Mr. Homuth:

Q. But they have two years?—A. Sure.

By Mr. Green:

Q. During the first two years if the contract is cancelled they get all their costs, plus 10 per cent profit, plus \$75,000?—A. That is right for both contracts. You have to keep repeating both contracts.

By Mr. McGeer:

Q. There does not seem to be any likelihood of the contract being cancelled now, does there?

Mr. FACTOR: My learned friend and his leader wanted it cancelled.

Mr. GREEN: I did not say I wanted it cancelled.

Mr. FACTOR: Your leader moved in the house to have it cancelled.

By Mr. McGeer:

Q. It would have been very unwise, in the light of all that has happened, to have it cancelled, would it not, Mr. Elliott?

Mr. HOMUTH: Another political speech from Mr. McGeer.

Mr. McGEER: Oh, no, just a simple little question.

By Mr. Isnor:

Q. Is the company at present in a state of production?—A. No, not as yet.

Q. Then the statement made is correct, that if the contract was cancelled to-day they would be obliged to pay the Inglis company \$50,000?—A. I would think that is correct.

Q. It states here that if cancellation is effected after production has commenced— —A. Then the damages are reduced proportionately, but not before.

By Mr. Factor:

Q. The first line indicates that if it is cancelled before production there is a flat sum payable?—A. Yes.

Mr. FACTOR: So are you not glad the motion did not pass to cancel the contract, Mr. Green?

The WITNESS: I had read item No. 16. That is the last substantial change which I have noted. I simply state that these are the changes made by the committee during the course of its examination and adjustment of the contract. I again point out, however, that these changes were in part suggested by Sir Harold Brown and were incorporated. In his final view he wrote and said that he had been greatly assisted by the excellent way in which the two draft contracts had been drawn up, and as the chairman of our committee was, of course, General LaFleche, I am a little anxious not to sort of say that the committee did something to the department because they relied upon us and we worked together.

Now, that is a summary of the changes made after the contract came to our hands.

[Mr. C. Fraser Elliott.]

By Mr. Green:

Q. Mr. Elliott, I thought you were going to mention about the assignment provision.—A. Yes. That is another change that I have omitted. The assignment provision was in there originally and at the last meeting of the committee I remember that we discussed it at some length. We all finally came to the conclusion that when the licence was non-exclusive, when there was a restriction upon assignment and when there was a restriction upon the selling of stocks that we had ample control over the possibility that anyone might consider of this company floating extra stock and selling it to the public. But for those changes they would have said, "We have an exclusive licence, we can assign all to another company in making munitions and guns" and they could have increased their capital stock. All these things were stopped; and joining them together we thought that was sufficient protection.

Q. Apparently that question of assignment was discussed quite a bit in the committee?—A. Oh, yes.

Q. I refer you to exhibit 56, which is a memorandum from the chairman of the interdepartmental committee, General LaFleche, dated 14th April, 1938, and addressed to members of the interdepartmental committee.—A. Yes.

Q. And at the bottom of page 4 he deals with this section 16. General LaFleche says as follows:—

A member of the committee thought that an assignment, with the consent of the party of the first part (the crown), might have latent in it the possibility of capitalizing the future contract that the government must give . . .

Now, apparently there was discussion in the interdepartmental committee to the effect that the department would be forced to give future contracts to the Inglis company?—A. Well, let me explain that in the meeting we had a stenographer who did not take down verbatim what was said; she made notes. They were reasonably comprehensive, but at times they were hardly in point; in fact, in going over the minutes that I received some long time after the last meeting on my own papers I have noted some rather naive remarks. For instance, we called Major Hahn and he made some statement as to the capital structure and the stenographer said in her notes that we were perfectly satisfied. Well, I think that is rather putting a clean cut answer to an inquisitorial hour; and then, there were other statements like that. The point I make is that these notes, the stenographer's notes, did not reflect with accuracy, you know, the evidence.

Q. But this is not the stenographer's notes?—A. I am coming to that. And from these notes General LaFleche has apparently written this memorandum, and he has apparently followed again some naive statements of the opinions of the committee by the girl's saying that the government must give future contracts. Now, I do not remember stating it in that positive way but I do remember discussing the possibility of future contracts as a very real thing to be considered. But to put it in the language that is here is an impossible matter. All I stated is that taking the proper view of these points the interdepartmental committee could not possibly know that they must give more contracts.

Q. Perhaps I would be putting it fairly if I said it was pretty well taken for granted by the interdepartmental committee in their deliberations that there would be future contracts to the Inglis Company?—A. No, I do not think that would be the best way of putting it. I would say in determining the terms of this contract they had in mind the possibility of future contracts being given factually. If that possibility were a factual thing we should make some provision for taking care of them if, as and when they arrived.

Mr. Mr. Homuth:

Q. Was there anything in any representation made to the committee or discussions within the committee that brought about the idea of building up an ordnance factory in the Inglis company?—A. I would say that was the apprehension in all our minds. It was hardly a discussion; it was just a sort of conclusion that we had that this was a gun-making factory, and it must be important; and war at that time was very close to us all. We believed and had accentuated these feelings, but when you give a contract to make guns to anybody, it is a new kind of factory in our country, and England participating, we thought of the future possibilities.

By Mr. Green:

Q. You thought there would be probable future contracts?—A. Probable future contracts. We possibly thought of that.

Q. It is borne out by the other remarks contained in exhibit 56.—A. I would not doubt they would be there.

Q. Showing Major Hahn thought of that also?—A. I have no doubts those remarks are in the evidence.

By Mr. McGeer:

Q. Do you know what Major Hahn had in his mind?—A. I know the wish he had in his mind.

Q. There was certainly no provision in this contract, no obligation for any further contract?—A. No, we guarded against that, that is the point. This was a specific contract, and eliminated all future entanglements.

By Mr. Green:

Q. You were trying to protect yourself in case of future contracts?—A. So there would be no entanglements by reason of this contract that would hamper us in the future.

By Mr. McGeer:

Q. You were expressly providing against any obligation whatever with regard to future contracts?—A. That is correct.

By Mr. Green:

Q. That is hardly the right way to put it. You were expressly providing that any future contracts that arose would put you in the position that you would not be getting into trouble?—A. I will accept that as correct, too.

Mr. MCPHEE: Have you discharged the witness?

Mr. MCGEER: No. Are you through, Mr. Green?

Mr. GREEN: I understand there will be a chance to go into the inter-departmental proceedings.

By Mr. McGeer:

Q. There has been some criticism offered as to the method of negotiating this contract. I should like to draw your attention to exhibits 146 and 147.

[Mr. C. Fraser Elliott.]

They read as follows:—

Canadian Delegation
Imperial Conference
1937.

Secret

Tel: Regent 8270

Arlington House,

St. James's, London, S.W. 1.

June 4th, 1937.

DEAR SIR HAROLD,—With reference to previous discussions concerning the possibility of manufacturing the Bren light machine gun in Canada, I beg leave to forward herewith two copies of a letter, dated June 3rd, 1937, addressed to me by Major J. E. Hahn, D.S.O., M.C., on behalf of the John Inglis Company, Limited, of Toronto, Canada. I am sending these documents to you as, presumably, you would care to see the proposal at the earliest possible date. The extra copy is for the Technical Sub-Committee if you desire to submit it.

The proposal has not yet been studied by the Department of National Defence (Canada) but many of the principles mentioned by Major Hahn in his draft agreement have already been approved in Canada.

Sincerely yours,

(signed) L. R. LAFLECHE.

Vice-Admiral Sir HAROLD BROWN, K.C.B.,
The War Office,
Whitehall,
London.

Exhibit 147 is a letter in reply from Sir Harold Brown to Colonel LaFleche, and it is dated 5th June, 1937, and reads as follows:

War Office,

Whitehall, S.W. 1,

5th June, 1937.

DEAR COLONEL LAFLECHE,—I have to thank you for your letter of 4th June with enclosed copies of a letter from Major Hahn, with proposed draft agreement for the manufacture of Bren guns in Canada.

I will have this studied to see how far this would be suitable from our point of view in the event of our placing orders for these guns in Canada. As regards the latter, I presume you will be forwarding concrete proposals officially in due course, together with all appropriate data, estimates, etc., provisional copies of which latter have been handed to me by you, but which Major Hahn has now withdrawn, I understand, for revision.

I shall be glad if you will confirm the above or will let me know if you are expecting the next action to come from us.

In the meantime I am arranging for you to discuss the licence question with the Director of Army Contracts.

Yours sincerely,

(signed) H. BROWN.

LIEUT.-COLONEL L. R. LAFLECHE, D.S.O.,
Canadian Delegation,
Arlington House,
St. James's,
S.W.1.

The CHAIRMAN: What is the date?

Mr. McGEER: June 4, 1937.

By Mr. McGeer:

Q. In any event the British War Office apparently were taken into the confidence of the Department of National Defence and the proposal started from there as one to be reviewed and advised on by the department of contracts of the British War Office. That is perfectly clear, is it not?—A. These exhibits make it quite clear, that that is so.

Q. Now, when we come to the final draft of contract which was prepared under the advice of and subject to the recommendations of the interdepartmental committee, its acceptance by the Department of National Defence was subject to its approval by the British War Office, was it not?—A. I believe that to be so, but I would suggest that somebody speaking more accurately than I be asked—

Q. But you do know as a matter of fact that the proposal as finally approved by the interdepartmental committee was again revised by the British War Office and some amendments suggested by the British War Office which were accepted?—A. After it left our hands, I do not know; I do not know that.

Q. You remember the visit of Major Hahn in London?—A. Oh, yes, surely. I see your point now. We are not together. I am speaking of after the 17th/18th March.

Q. Oh, yes.—A. We did not see the contract again after that.

Q. But that was after the amendments proposed by the British War Office had been submitted?—A. That is right. I agree with that now. Submitted to England and revised by them and they made suggestions and changes.

Q. So that we have this method of negotiation, that from the very inception of the proposal it was reviewed by the British War Office and the final determination of the terms of the contract was after certain recommendations of the British War Office had proven to be acceptable to the department of defence and the interdepartmental committee?—A. To answer that "yes" would hardly be helpful. The contract, as you state, was submitted to the British officials, and they made changes, and then it came back to Canada. That was between, I believe, the third and the fourth meetings, if my memory serves me correctly, and I think at the fourth meeting we went over the contract again after it had been received from England and finally approved it.

Q. But your contract as far as Canada was concerned with the John Inglis Company was made conditional; that is, the acceptance and final confirmation of the contract was made conditional upon the British War Office giving Hahn a contract for 5,000 guns?—A. Oh, undoubtedly.

Q. And the two contracts were interwoven to such an extent that subject to minor details?—A. Would not have considered one without the other, and they were interwoven.

Q. In the main the terms of the contracts were the same?—A. Very substantially.

Q. That is with the exception?—A. Things that really do not matter.

Q. With the exception of component parts here and there and certain other features in which the British War Office themselves were interested that did not involve the main principles of the contract.—A. No, that is correct.

Q. Now, is it not true to say that the department of defence had in addition to the assistance of the interdepartmental committee the assistance of the department of war contracts and the British war ministry as well?—A. Well, when the contract was submitted to England that is a reasonable conclusion, but to state I know that the contract division of the English ordnance looked at it, I could not say positively yes; but I would be surprised if they did not go over it when they had the contract over there. I would presume they would—

[Mr. C. Fraser Elliott.]

Q. As a matter of fact, you know they did, because they did forward it back to you?—A. It came from Sir Harold Brown. Whom he consulted does not appear.

Q. He was the director of war contracts at that time?—A. That is right.

Q. And was later promoted to master-general of the British ordnance?—A. That is right.

Q. And you do know that as a result of the contract being forwarded to his department that certain changes were recommended and accepted?—A. That is right.

Q. Which he stated were beneficial to both the British and Canadian governments?—A. That is right.

Q. So then, I put it to you again: in the method of negotiating this contract right from the first proposal that was made, the Department of National Defence had the assistance of the interdepartmental committee which was set up by the Canadian government and also the assistance of the director of war contracts of the British ministry?—A. That is right.

Q. And you have given us the letter in which that director of war contracts and the British ministry pays a high compliment to Major Hahn for the assistance which he had given in working out these contracts?—A. Yes, I read from that in my evidence.

Q. Now you also had another report before you in the interdepartmental committee which discloses something of the method of negotiating this contract, and that is contained in exhibit 51. That is a report from Colonel Dewar to the deputy minister who was chairman of the interdepartmental committee, and in it this statement is to be found:—

Although it is not one of the functions of the M.G.O. branch to make any selection of contractors or to comment upon the relative merits of cost plus contracts by selected contractors or procurement by the tender system, it is felt that some remarks are necessary in this case.

—A. What page are you reading from?

Q. Page 2 of Colonel Dewar's report, the seventh paragraph.

Although it is not one of the functions of the M.G.O. branch to make any selection of contractors or to comment upon the relative merits of cost plus contracts by selected contractors or procurement by the tender system, it is felt that some remarks are necessary in this case.

There is an impression in this branch that quite a number of Canadian manufacturers have attempted, either by personal interview or by correspondence with the War Office, to obtain contracts for war material from the War Office. As far as is known only one firm in Canada has succeeded in obtaining a contract.

The lack of interest as exhibited in regard to placing of orders in Canada, appears to be overcome only by the interest which any particular Canadian contractor can create in the War Office in the production which he proposes to undertake.

If my interpretation of the situation is correct, the president of the John Inglis Company has created an interest which has resulted in the War Office indicating that, subject to certain conditions, assistance to the extent of an order for 5,000 guns might be given. I would like here to suggest the possibility that any hesitancy on our part might easily destroy all the interest which the company has created.

Hon. Mr. STIRLING: Do you say this was Colonel Dewar's report?

Mr. McGEER: Colonel Dewar's report.

Mr. GREEN: I think the next paragraph should also be read.

Mr. McGEER:

I do not believe Canadian firms will find it possible to intelligently submit quotations on Bren guns without going to England and spending considerable time to study the manufacturing methods and to obtain data as regards the equipment which would be needed.

Mr. GREEN: It should be noted that this is a year and a quarter at least after Hahn started his negotiations with the War Office.

Mr. McGEER: The date is at the end. The first part of the exhibit is dated January 28, 1938, and the memorandum is dated 18th January, 1938. But I am discussing now the method of negotiating the contract. This is information your interdepartmental committee had before it.

Mr. BROOKS: Hahn already was held out as a representative of the Canadian government at that time.

Mr. GREEN: He had been months before that.

Mr. BROOKS: That is what I thought.

The WITNESS: In answer to your question, Mr. McGeer, I may say yes, that is correct.

By Mr. McGeer:

Q. You do know also that the Department of National Defence had been informed by the British War Office before or at sometime during the course of the negotiation of this contract that their requirements for Bren guns had been completed?—A. That is all contained in the statement made by General LaFleche to the committee at our very first meeting, I think, a sort of general résumé of the whole situation, but he can speak more accurately on that.

Q. Now, do you know of any objections from the Department of National Defence with regard to any of the proposed changes, extensions or amendments that the interdepartmental committee offered in connection with this contract?—A. Oh, no. I am very glad you raised that. I must say that all the suggestions were accepted with alacrity, and I think there was only division on possibly two points. Any suggestion that was made by the committee to the Department of National Defence, General LaFleche acting as chairman and also deputy minister, certainly did accept them with alacrity, with two exceptions; one was the incentive clause. He was against that. He did not believe it to be economically sound, and his assistant supported him in that. We put it to a vote and voted on it. Now, as to the other exception—I know there were only two—and he is still against the incentive clause principle, and it is in only because the committee insisted on its going in.

By Mr. Factor:

Q. Was the incentive clause in the first draft?—A. No, suggested by England.

By Mr. McGeer:

Q. It was in the British contract?—A. Yes.

By Mr. Green:

Q. I want the other exception too?—A. I am trying to think what that was.

By Mr. MacNeil:

Q. Was it not competitive bids?—A. On competitive bids, yes, that is it.
[Mr. C. Fraser Elliott.]

By Mr. Green:

Q. You certainly would not say he accepted your suggestion that attempts should be made to find other contractors?—A. No, these were the two. The question asked was with regard to suggestions for amendments of the contract. We are speaking as to the contract. I repeat that. I do not think I ever mentioned it to any of my co-members on the committee, but I was very remarkably surprised with the readiness to accept, almost the jumping at any suggestion that was useful.

Q. That is so far as the wording of the contract is concerned?—A. Any changes in the contract, qua contract.

By Mr. Factor:

Q. The terms of the contract?—A. Absolutely.

By Mr. Brooks:

Q. Once it had been decided to give the John Inglis company the contract the department agreed to the terms with alacrity?—A. Certainly, that is true.

Mr. McGEER: That is neither fair nor correct. It never was decided during the course of the negotiations to give the John Inglis company any contract until the British war office had completed a contract with the John Inglis company.

THE WITNESS: You must realize this: That the interdepartmental committee had referred to it non-competitive contracts, and when we had this contract referred to us it was with the John Inglis company and it was a dual contract. England's affairs were mentioned in the first contract and it was only on a discussion in the committee meeting that we struck out all reference to England and made our contract stand on its own basis apart from any relation to England.

By Mr. MacNeil:

Q. But the British contract was not signed until after the Canadian contract?—A. Oh, no, that is correct; but I say when they were referred to us they were very much interlocked.

By Mr. McGeer:

Q. But you had definite information from the British war office that they had agreed to give the John Inglis company the 5,000 gun contract before the Canadian contract was signed?—A. I would say that that was their intention.

Q. They so stated.—A. I can say I will agree with you but until I legally do it it is a mere expression of intention.

By Mr. Green:

Q. Then you went as far as you possibly could to provide for there being competitive tenders?—A. We wanted competitive tenders, and I should like again to make that clear, as I hope I did the other day. We certainly believed in competitive tenders, but we did not want competitive tenders if we were going to lose the advantage that the British contract offered us. And the officials in Great Britain certainly did say, even after we had mentioned a selective list of competitive bidders, "Any further delay will be fatal to our interest." Therefore, although we did not abandon the principle of competitive bids, we were not foolish enough to throw over the advantage of an immediate contract which would make the savings we have so often talked about. Notwithstanding the words "it is fatal," if the committee had said "We insist upon competitive bids and we do not believe what they say," in plain English, then by England with-

drawing its 5,000 gun order the committee would have lost to the crown that \$509,000 we talked of and the extra saving to increase production. Then we should have been in a bad way.

Q. When your committee began to get insistent on having competitive bids, Major Hahn packed up overnight and went to England?

Mr. McPHEE: There is nothing to that effect in the evidence.

By Mr. Green:

Q. After that this word came from England that the contract had to go through or there was danger of it not being a contract.—A. I think the cablegram was sent two days before he arrived. You can find that in the evidence, because I am quoting from some comments that were made as evidence before the Davis commission. If you will look over it I think you will find that the answer to our cable was sent two days before.

Q. I think you will find that it was two days after.—A. Then I am glad to say I only heard it in comment; I do not know.

By Hon. Mr. Stirling:

Q. But the committee reluctantly gave way on its preference for competitive bids because of the danger of losing the British contract?—A. Yes, Mr. Stirling.

Q. Am I right in taking it that you were of opinion that had competitive bids been proceeded with a year before it would have been a preferable way to go to work?—A. No, we did not express that opinion, Mr. Stirling. The way we thought of it was, let us have competitive bids along with the English contract, then we would get two benefits, the English contract and the competitive bids. But England said, "No, we won't have any more delays on competitive bids." And we said, "All right, are we going to stick to the principle of competitive bids and lose this benefit, as no other company has an asset to offer us that is equal to the English contract?" Obviously, no. And we did not consult one with the other or discuss that this should have been done one or two years ago, because we were dealing with an actual situation and not with past omissions or otherwise.

Q. Yes, but when the draft of the English contract first came before your committee you evidently were of opinion that it was regrettable that a selective decision had been made; that it would have been perfectly possible and perhaps preferable to have gone ahead endeavouring to get competitive bids from Canadian firms who would be capable of carrying out the contract?—A. I think that is a fair statement, yes.

By Mr. Green:

Q. Mr. Elliott, I think you told us that that cablegram from the war office was on February 9, 1938, urging haste, and at page 39 of the Davis report we find this:—

The deputy minister (but not without the subsequent approval of the committee) amended their draft cable before it was sent. Moreover, the deputy minister sent a very long cable himself at the same time to the war office. Major Hahn was in Ottawa the day of the meeting (January 24) and was anxious to see the committee, but he said he was not called in. The deputy minister told him, he says, that "the suggestion of tendering was to be continued with" and Major Hahn says he "unexpectedly took boat for England"; he "went straight back to Toronto on the 25th and sailed on January 26" from New York for England, arriving there on the evening of February 2. En route he sent a wireless asking for an interview with Sir Harold Brown or with some-

[Mr. C. Fraser Elliott.]

one at the war office and was notified on the morning of February 3 that that had been done. After interviews in England with the war office, Major Hahn was back in Toronto by February 18.

When you were dealing with a financial statement headed "Financial phases of Bren gun contract," you quoted that cable at the foot of that statement. You gave this quotation: "As regards alternative tender. . . this delay would be fatal to the British interest in the scheme." The date you gave as the date on which the cable was sent was February 8, which is six days after Hahn got to England.

Mr. FACTOR: Where do you get the date of February 8?

Mr. GREEN: Mr. Elliott gave that in evidence the other day.

The WITNESS: I have it here now. I am reading from a memorandum to the interdepartmental committee dated the 11th of February, 1938, signed by General La Fleche.

By Mr. Green:

Q. What exhibit is it?—A. I do not know. In this memorandum he quotes from a message received from Sir Harold Brown which in the body of it contains that which you referred, namely, "This delay would be fatal."

Q. Is that exhibit 229?—A. I am looking at my own original papers; I do not know what exhibit number it is.

Q. Is that the one which reads, "The first is a copy of a cypher message from Sir Harold Brown, received on the 8th instant"?—A. Yes.

Q. That is exhibit 229.—A. My memory runs like this, Mr. Green, although I cannot find it exactly; that it was about the 26th of January that we drafted—no, it was in the third meeting that we drafted the terms of the cable and then it had to be revised somewhat and it was brought to my office and we revised it to some minor degree and then it was dispatched about the 26th.

Q. Well, it is exhibit 188, is it not, Mr. Chairman?—A. These documents do not show exactly when we sent our cable. We have not laid our hands on the document, but your point is that though we sent a cable, before a reply came back, Hahn was in England at the time they discussed the matter with Sir Harold Brown? Is that not your point?

Q. That is right.—A. My thought is that we had sent the cable which we all agreed on and that it was answered before Hahn got to England. I will find out the exact dates.

Q. I want that traced down. That is the whole point. Mr. Justice Davis said Hahn got to England on February 2.

Mr. McGEER: Well, is not the whole matter cleared up in the report made by Colonel Logie?

Mr. GREEN: The cable will be found at page 189 from the war office and it is dated February 4, two days after Hahn reached England.

Mr. SLAGHT: I think that was explored before Mr. Justice Davis.

Mr. McGEER: I agree on that.

By Mr. McGeer:

Q. The point I wanted to clear up before was this, Mr. Elliott: On the question of competitive bids, after the discussion between the members of the interdepartmental committee, which included as chairman the deputy minister of defence in Canada, the matter of whether or not competitive bids should be called for was put squarely up to the war office in London?—A. By the cable, yes.

Q. And it was the war office in London that decided against competitive bids?—A. They sent back a cable and said, "Any further delay would be fatal."

Q. And in that way they decided against calling for competitive bids as far as the British war office contract was concerned.—A. That was our conclusion.

Mr. MACNEIL: What was the answer?

By Mr. McGeer:

Q. What I have said is this: That when the matter of competitive bids came up it was discussed and the deputy minister of national defence said that he feared that if there was any delay of that kind it might endanger the letting of the contract by the British war office. That was the objection and the only objection the deputy minister of defence raised, was it not?—A. That was the objection.

Mr. GREEN: To make that a complete picture it should be clear that Hahn had got to England by that time.

By Mr. McGeer:

Q. I shall deal with that. And then you decided to cable to the British war office to ascertain whether or not the fears of the deputy minister of national defence were well grounded or not?—A. That is right.

Q. And on cable and on reply you learned in a positive way that the British war office were against calling for tenders?

Mr. GREEN: At that time.

The WITNESS: They would brook no further delay, which required us to make the conclusion that they would not wait for competitive tenders and, therefore, in that way would not have them.

By Mr. Brooks:

Q. Is the inference not that Canada had delayed so long England could not delay any longer?—A. All I know is that the cable came in. What the reasons were behind that cable I do not know; but they did say "any further delay would be fatal."

Q. They said "further delay" instead of "delay"?—A. Yes, I think that is right.

By Mr. Factor:

Q. But that was in reply to your cable?—A. Right.

By Mr. McGeer:

Q. You have the report of Colonel G. P. Logie, representing the High Commissioner's office, at the conference that was held in London between Major Hahn and Sir Harold Brown for consideration of the cables which you sent?

Mr. MACNEIL: What date?

Mr. McGEER: It is exhibit 224. I just want to read this exhibit into the record because I think it clears up the whole question of Hahn's relations with the interdepartmental committee's suggestion for competitive bids and the British war office at that particular time.

Mr. SLAGHT: Mr. Chairman, I do not appreciate—perhaps I am dull—what possible difference there could be whether Major Hahn endeavoured to have the British war office accept his contract rather than call for others, because the only suggestion that I can see which would follow from that would not be a reflection upon the Canadian government at all but would be a suggestion that the British war office had fallen down in some way by succumbing to the pressure of Major Hahn. Now, we are not investigating the British war office, and I for one do not think any imputations of that kind should be brought out against them.

Mr. McGEER: I agree.

[Mr. C. Fraser Elliott.]

Mr. SLAGHT: They would be quite right if they did discuss it with Hahn, and surely my good friends do not want this committee to throw mud at the British war office because of their decision.

By Mr. McGeer:

Q. The matter is here presented in a record which speaks for itself. I am referring to exhibit 224. It is a report of Colonel G. P. Logie who was the representative of the Department of National Defence for Canada in London at the time. That is correct, is it not?—A. That is right.

Q. It says:—

On the afternoon of the 2nd February 1938, Sir Harold Brown's secretary informed me that Major J. E. Hahn, president of John Inglis Company, Limited, was arriving in London that day. He (Hahn) had cabled en route asking for an appointment with Sir Harold and had been informed that same was arranged for 3rd February at 12 o'clock noon. I was further informed that Sir Harold asked that a government representative be present at the meeting. Accordingly cablegram No. 27 was dispatched to External Affairs and a reply was received authorizing a representative of the High Commissioner's office being present at the interview in a watching capacity.

Later in the afternoon of 2nd February, I was called to Sir Harold Brown's office and was shown by him two cablegrams which had just been received from the Deputy Minister of National Defence.

One of the cablegrams requested information in connection with Enfield production costs on Bren guns. Sir Harold informed me that the data was obtained and would be cabled without delay.

The other cablegram, a lengthy one, informed Sir Harold a difficulty had arisen in the present negotiations. It appears that the scheme and proposed revised contract, subject to minor details, having received approval of the Department of National Defence was recently presented to the interdepartmental committee on profit control. This committee, of which the Deputy Minister of National Defence is chairman, was created in the spring of 1937 and it is understood commenced to pass on armament profits in the fall of 1937. The message went on to say that on consideration the committee suggested that competitive tenders on a cost plus basis be secured for the manufacture of these guns. The reaction of the department to this suggestion was expressed in the cablegram in the following terms:—

(i) That the revised proposed contract of the John Inglis company satisfactory to the department.

(ii) That the technical officers of the department are satisfied the company can produce the guns.

(iii) That the Canadian supply of Bren guns is an urgent necessity.

(iv) That the suggestion of the committee would retard progress for at least six months inasmuch as competing firms would have to closely study Enfield production methods before being in a position to submit a reasonable tender.

(v) That the department has not considered any other Canadian company with a view to the manufacture of Bren guns and is anxious to have Major Hahn proceed to London immediately for final negotiations with the war office.

In his cabled reply, a rough draft of which was shown to me, Sir Harold emphasized the necessity of the immediate completion of a satisfactory agreement and mentioned the fact that a firm having carried out technical investigations obviously had the advantage, or words to that effect.

Mr. GREEN: That is the point we are making.

Mr. McGEER: I am giving you full advantage on your point.

Sir Harold mentionel that should further delays occur a serious situation would arise in that the Enfield plant would be idle or nearly so, before a Canadian entered production. He felt that unless immediate action was taken by the Canadian authorities the war office might be obliged to withdraw from participation in the scheme. I took occasion to ask him that in the event an auxiliary source of supply was established in Great Britain whether tenders would be invited or a suitable firm selected. He said, "We would select a firm."

At the meeting referred to in paragraph 1, there were present,—
Engineer Vice-Admiral Sir Harold Brown, D.G.M.P.

Mr. H. C. Gordon, Director of Army contracts.

Colonel G. P. Loggie, representing H. C.'s office.

Major J. E. Hahn, President, John Inglis Co. Ltd.

Major Hahn produced drafts of separate agreements,—

(i) Between the Canadian government and the John Inglis Company for production of 7,000 Bren guns, and

(ii) Between the British government and the John Inglis Company for the production of 5,000 Bren guns.

(b) Except that in (i) provision is made that all machinery, tools, dies, jigs and gauges will be provided and installed by the Canadian government together with certain preliminary compensations to the contractor, both draft agreements are identical.

(c) The agreements provide that the price of the Bren guns, spares and component will be,—(i) the sum of all costs incurred in connection with the manufacture, and (ii) ten per cent of all such costs except,—

(a) Sales tax,

(b) Customs duties,

(c) Royalties and licensing fees in connection with the use of patents and designs,

(d) Interest on bank loans,

with the provision that the amount under (ii) will not exceed a sum of \$37.50 per gun.

(NOTE). Under the term "cost" the contractor is to be paid ten per cent of the cost of tools, dies, jugs, fixtures, etc., produced by the firm.

(d) In regard to the provision of machinery, tools, dies and fixtures in fulfilment of these contracts it is proposed that payment for same will be apportioned by the Canadian government paying seven-twelfths and the British government paying five-twelfths of the total cost. It is further proposed that the property in the machinery, etc., will be vested in the Department of National Defence who will assume responsibility for maintenance when the equipment is not in use.

Mr. BROOKS: We have all that.

Mr. McGEER:

If required by the war office for the manufacture of Bren guns in excess of 5,000, or other weapons, after fulfilment by the contractor of his contractual obligations (12,000 guns) the department will make available the equipment under mutual arrangements between it and the war office.

(e) A copy of the draft agreement affecting the war office, together with analysis of costs and other data were retained by Sir Harold Brown for technical examination and consideration.

[Mr. C. Fraser Elliott.]

(f) Sir Harold Brown requested confirmation as to the necessity of a separate contract as opposed to a direct order being placed with the Canadian government.

(g) In regard to the new developments referred to in paragraph 4 above, both Sir Harold Brown and Mr. Gordon expressed very definite opinions. Sir Harold strongly objected to the suggestion for the following reasons,—

(1) War Office requirements are urgent. They have been pressing for action and expect Canadian co-operation resulting in the earliest possible deliveries.

(2) Realizing the consequent delays a situation would develop in which their plants would be idle, or nearly so, before a Canadian plant enters production.

(3) No useful purpose is apparent in a cost plus tender as in any case the element of total cost would be the controlling factor in awarding a contract.

Mr. Gordon stated it has always been War Office practice in considering specialized equipment of this nature to select a reputable firm and evolve a fair contract. He expressed himself as being almost certain that in view of delays consequent upon the suggested proposal the War Office would withdraw from participation in the scheme.

(h) The meeting adjourned at 1.15 p.m. to reassemble at 3.30 p.m. on 4th February.

Now, that report was before the interdepartmental committee, was it not?—A. No, that report was not before the interdepartmental committee. I do not ever remember reading that report before. The substance of it was referred to us by General LaFleche in his remarks.

Q. Well, in any event, you knew that Loggie was in London?—A. Oh, yes.

Q. You knew that he had made a report?—A. Yes, and we had a telegram from Loggie that I read.

Q. And the substance of this report was placed before you?—A. It was emphasized by General LaFleche.

Q. And these were the facts upon which you acted?—A. That is correct.

Q. Now, the suggestion has been made that there had been some undue pressure on the War Office from the Department of National Defence. Certainly that report indicates that it was the War Office that put pressure upon your committee to close this contract with the selected firm, the John Inglis Company. Is that correct?—A. On the first part, there was no pressure that I was aware of as a member of the interdepartmental committee, and I should think I can speak for the whole committee, that any pressure that we as a committee were exercising on anybody is we were asking in regard to inquiry about tenders if possible. If you can reasonably assume that the answer is pressure, then I would say there was pressure upon us to get on with this particular contract.

Q. And to close with the John Inglis Company that had been selected by the British War Office as the Canadian contractor to consummate 5,000 guns for the British war ministry?—A. That is correct.

Mr. GREEN: After Hahn had been at it for 18 months.

By Mr. McGeer:

Q. Yes, and after Hahn had been negotiating with the British War Office for 18 months?—A. That is correct.

Q. Sir Harold Brown wrote one of the most complimentary letters about Hahn's business ability and his capacity to do this work that you have ever seen?—A. Oh, I do not like to answer these superlatives made in that way. I do not say they were not words of praise about the contractor and the negotiations and the progress that was made. That is all in evidence.

Q. And the business ability of Major Hahn?—A. It was all mentioned. It is matter of degree, and I do not want to go into it yes or no.

Q. He was highly acceptable?

Mr. GREEN: After 18 months.

Mr. McGEER: After 18 months negotiating with the British War Office and the man in charge of that important work over there.

Mr. MACNEIL: Because of the special advantages he had been given.

The CHAIRMAN: Gentlemen, before we adjourn, I wonder if it is the wish of the committee that we should continue any further with the present witness?

Mr. MACNEIL: If we are going into the discussions in the interdepartmental committee we certainly will require Mr. Elliott.

The CHAIRMAN: Then, we will continue on Thursday.

Mr. GREEN: The government are fairly anxious to complete the session by May 12. We certainly cannot conclude our work by that time if we sit only twice a week. I suggest we meet each morning.

Mr. McGEER: Let us get power to sit while the house is in session. There are other committees as well.

The CHAIRMAN: We have power to sit while the house is in session, but I do not believe we can meet to-morrow morning.

Mr. GREEN: Why cannot we sit on Mondays and Fridays as well as Tuesdays and Thursdays?

Mr. McGEER: Because we have other committees to attend.

The CHAIRMAN: There is no reason why we cannot sit twice a day.

Mr. GREEN: It is impossible to carry on with the other work of the session if we sit twice a day. I do not see why we cannot sit on more days than Tuesdays and Thursdays.

Mr. McPHEE: We cannot sit to-morrow because of other committees.

The CHAIRMAN: One of our difficulties this morning was that there were three or four other committees sitting.

Mr. GREEN: If we want to wind up our work I submit we should sit four days a week, at least.

The CHAIRMAN: Suppose we adjourn now until Thursday and consider what we can do.

Mr. McGEER: We had better adjourn to the call of the chair.

Mr. MACNEIL: To the call of the chair.

The CHAIRMAN: All right, this meeting will adjourn to the call of the chair.

The committee adjourned at 1.05 p.m. to meet again at the call of the chair.

SESSION 1939
(HOUSE OF COMMONS)

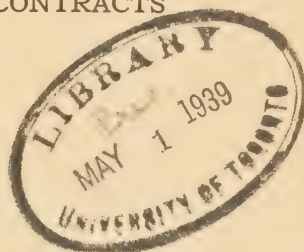
STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 11



Thursday, April 27, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

MINUTES OF PROCEEDINGS

THURSDAY, April 27, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Beaubien, Bercovitch, Black (*Chateauguay-Huntingdon*), Blanchette, Brooks, Douglas (*Weyburn*), Factor, Ferland, Fleming, Fraser, Golding, Green, Heon, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McDonald (*Pontiac*), McGeer, McPhee, Marshall, Purdy, Rickard, Slaght, Tremblay.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance.

Examination of Mr. Elliott was continued.

The Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

April 27, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Order, gentlemen; we have a quorum.

C. FRASER ELLIOTT, Esq., K.C., Commissioner of Income Tax, Department of National Revenue, recalled.

Mr. McGEER: Mr. Chairman, there is one matter which I think we should certainly clear up. During the course of his examination of Mr. Elliott Mr. Green dealt with the question of whether or not a telegram or cablegram from the war office advising the Department of National Defence and the interdepartmental committee that any further delay in completing the execution of the contract would probably result in the British War Office withdrawing; that that telegram was despatched after Major Hahn had arrived in London. On this point I have read the record and I find that the matter was fully discussed during the hearings before Mr. Justice Davis, the commissioner on the original inquiry. Major Hahn was examined and the matter was finally cleaned up on the 28th day of the inquiry, and the evidence on that point is to be found at pages 3400 to 3406, and it was finally disposed of by the presentation of a telegram from Sir Harold Brown which I would like to read into this record. I am reading from page 3405 of the evidence of the 28th day of the hearings.

Mr. GREEN: What exhibit is that, please?

Mr. McGEER: I think that is exhibit No. 333, Mr. Green.

The reply is dated November 1, 1938, from London, and is as follows:—

From: The High Commissioner for Canada in Great Britain.

To: The Secretary of State for External Affairs, Canada.

Code No. 250.

London, November 1st, 1938.

No. 250. Your telegram No. 224 October 31st. The information given in my telegram No. 220 was confirmed from Sir Harold Brown, who, in addition to verbal statement, has communicated in writing to me as follows, begins:—

I write to confirm that the date and time of despatch of telegram from the War Office on the subject of the Bren contract in Canada is as stated in the attached telegram. These details were obtained from my office before your telegram (No. 220) was despatched.

I can only assume that these enquiries, which I must say I somewhat resent, have relation to the fact that Major Hahn visited the War Office on February 3rd, 1938, that is the day after the telegram in question. It should be clearly understood that Major Hahn's visit had nothing whatever to do with the telegram which was dealt with and despatched before he had been seen.

ENDS,
High Commissioner.

I do not think that any comment is needed from me, except to say I feel it is due to Colonel Loggie, in view of the very serious reflection made upon him by Colonel Drew's suggestion that his statement should not be accepted, that I should read this telegram, and that I should review the situation, as I have. Needless to say, there is no intention to reflect in any way on Sir Harold Brown, and I am sorry if he has expressed resentment with regard to inquiries. However, matters arose in the way in which I have stated, and I have endeavoured to state the facts.

The COMMISSIONER: There is no ground for resentment by anybody, —no ground for resentment by anybody, in an inquiry which is endeavouring to ascertain all the facts.

Now, that ought to place the matter clearly, beyond any further dispute, with reference to the suggestion that Major Hahn, who was under very positive and serious attack here and has been during the inquiry, should go to London and induce the war office to send a telegram that would be in his favour and presumably against the interests of Canada, and that is something that any High Commissioner should resent; because that certainly was the spirit of the examination conducted by both Mr. Hellmuth and Colonel Drew; and anyone who reads the evidence will find there the very same suggestion that we had the other morning before this committee, that Major Hahn had gone to London and induced the war office to send a telegram to influence the interdepartmental committee in his favour. Now, as I say, that was the spirit of the examination before the inquiry, and here, but I do think that ought to put an end to the matter.

By Mr. Green:

Q. Mr. Elliott, did you know that Major Hahn had gone to England on that occasion?—A. I knew he had gone to England from the general information that I had gathered, not at any committee meeting, but at places outside; but the doubt that arose in our mind at the close of the last meeting was a doubt as to whether Major Hahn was in England before the reply to the interdepartmental committee telegram sent by General LaFleche at the request of the committee, whether Major Hahn was in England before the reply came back or whether he arrived in England after the reply came back stating that further delay was fatal. I say we were left at last meeting under some doubt as to whether that was so or not.

Mr. McGEER: That is the idea that was left in the minds of this committee.

The WITNESS: Quite so. And having read over and had a chance to examine for the first time the evidence before Commissioner Davis at page 3406 it becomes abundantly clear that Major Hahn did not arrive in time to influence in any way the sending of the reply to the interdepartmental committee's telegram asking for competitive bids, and the reply to which was that any further delay would be fatal.

By Mr. MacNeil:

Q. Have you the date on which the cablegram was received?—A. The cablegram from Sir Harold Brown was, as this evidence just read indicates, sent on the 3rd of February, 1938. It was received by the Department of National Defence in a manner that was incapable of understanding.

Mr. McGEER: They had difficulty in decoding it.

The WITNESS: It was really garbled, and in decoding it it became difficult to appreciate it. That is easily understood for the reason that we asked for some technical information in the first part of our cablegram; namely, the cost of the guns on a given production basis.

[Mr. C. Fraser Elliott.]

By Mr. Factor:

Q. You mean, in the same cablegram?—A. In the same cable, in the first part of the cable we asked for this technical information: what is the cost of the production of a Bren gun in England? We wanted that as a basic piece of information to compare it with the cost of production of the gun in Canada. We knew how much it cost in Canada, and we wanted to compare it to see whether we were miles out on the data, or whether we were getting substantially a price in Canada that was comparable with the price in England. The technical reply had a great many difficulties in it and it was easily understood why it should be garbled. However, that must have arrived on February 4th at the outside; but to re-confirm the cablegram and to get it properly in order it came to the committee I think on the 8th of February.

By Mr. Green:

Q. There were further communications from London after Major Hahn had been in contact with the British?—A. I do not think from Sir Harold Brown, by cable; but there was I think a letter after, but no cable.

Mr. McGEER: In any event, the cablegram that was despatched to Sir Harold Brown during the course of the inquiry and the reply which was received was sent for the purpose of ascertaining definitely whether the cablegram was despatched before or after Major Hahn's contact with the War Office. There was, as the evidence shows, some confusion as to the date, which was explained in the way Mr. Elliott has explained it now. In view of the contradiction of the evidence by one who stands so high in British officialdom as Sir Harold Brown it does not seem to me that the matter is open to any further investigation, unless it be that we should investigate the veracity of Sir Harold Brown.

Mr. GREEN: Nobody is raising that question at all. Why do you want to keep drawing these red herrings across the trail every time you think we get close to something which you think may be against the government?

Mr. McGEER: We are not doing that at all.

Mr. FACTOR: The impression I got was that the visit of Major Hahn—that Major Hahn on February 3rd influenced Sir Harold Brown in sending the cable; that was the whole direction of the cross-examination.

Mr. GREEN: I am simply trying to get at the facts, and every time I appear to make progress you object, you are acting just like defense counsel.

Mr. BERCOVITCH: If Mr. McGeer is acting as defense counsel I would suggest that my hon. friend, Mr. Green, might easily be classed as counsel for the prosecution; crown prosecutor, if you like.

Mr. McGEER: I have been called pretty near everything in my time, and if he wants to call me counsel for the defense that does not matter to me.

Mr. GREEN: In any event, it does not matter.

Mr. McGEER: There is another thing I would like to draw to the attention of the committee as to the position taken by Sir Harold Brown, as indicated by his telegram. As soon as he knew that Major Hahn was on the way he requested the High Commissioner for Canada in London to arrange to have a representative of the Canadian government present at the conference with Major Hahn. The High Commissioner then communicated with the Department of External Affairs in Canada and it was agreed to authorize Colonel Loggie, who was the liaison officer for Canada in London, to sit in on that conference. Colonel Loggie did sit in on the conference. He did make a full report to the High Commissioner, and that report was communicated to the Department of National Defence, and it was, as Mr. Elliott has told us, in turn duly passed on by the deputy minister of the Department of National Defence to the interdepartmental committee; and that report of Colonel Loggie's is not disputed in any way, and it shows very

definitely what the situation was, namely, that the British War Office being satisfied that Major Hahn could manufacture Bren guns in Canada and concerned over the serious nature of the situation, plainly told the interdepartmental committee that the selection which they had made and the contract they had entered into would be dropped unless a complementary contract accepting the same contracting firm were accepted by the Canadian government without delay.

Mr. MACINNIS: That was after pull or pressure on the war office by the Department of National Defence.

Mr. McGEER: I think there is no evidence at all to indicate that. There is this in the evidence which I think is abundantly clear: Major Hahn did go to London, first as a representative of the Canadian government, afterwards as a potential contractor; and he did succeed in doing what any contractor has a right to do, to successfully represent to the British government that he was competent and capable of making Bren guns for them in Canada. Now, he made that successful effort on his own behalf with the British war office.

Mr. HOMUTH: Any contractor could not do it; the only contractor who could do it was Major Hahn, because he was chosen by the Department of National Defence.

Mr. DOUGLAS: Could we just hear the witness?

Mr. McGEER: I think that is a matter of argument. When we come to examine Major Hahn I think you will have your mind changed on that.

Mr. MACINNIS: Having regard to the point Mr. McGeer is trying to make, that the war office selected the John Inglis Company, and was quite satisfied with that selection, for the manufacture of certain Bren guns, I pointed out to Mr. McGeer that this was done only after continual pressure over a period of one year.

Mr. FACTOR: Not pressure.

Mr. MACINNIS: We will let the commissioner speak on that point. On page 48 of Commissioner Davis' report we find this:—

It clearly results from the evidence that the department having introduced and sponsored Hahn to the war office and the war office having in November, 1937 (after a full year of pressure by the department upon it) expressed its readiness to negotiate with the Inglis Company for the production of 5,000 guns, and the negotiations having proceeded to the point where on February 9, 1938 (Exhibit 218), a draft contract with the John Inglis Company had been agreed in detail by the war office, the matter had been brought into such a posture that the department felt it was really not in a position to propose to the war office the consideration of another contractor. This appears to be the effect of the statements made by the deputy minister when the proposed contract was before the interdepartmental committee as well as of his testimony relating to the effect of the war office cable of November 9, 1937.

If that is not clear proof that the war office succumbed to pressure, after it had been exerted for a year and more, to accept Major Hahn, then I do not know what evidence would be required by Mr. McGeer.

Mr. BERCOVITCH: The Canadian government was interested in getting the guns as cheaply as possible.

Mr. MACINNIS: Yes.

Mr. BERCOVITCH: If by obtaining a contract from the war office there was a saving of a considerable sum of money to the Canadian government, I think the government was justified in applying what you call pressure.

Mr. MACNEIL: Eliminating competitive bids.

[Mr. C. Fraser Elliott.]

Mr. BERCOVITCH: There were not any necessary.

Mr. MACNEIL: We are not complaining so much of their trying to get a supplementary contract from the British War Office. What we are complaining about is the way in which it was gone about, the way in which Major Hahn was, at one and the same time, government representative and a contractor.

Mr. BERCOVITCH: The question as to whether he was a government representative or not will have to be interpreted, of course, from the correspondence according to the kind of glasses that we wear.

Mr. MACINNIS: Not necessarily from the kind of glasses we wear. If we are going to interpret things according to our prejudices, then we can understand what the report will be when it comes in.

Mr. BERCOVITCH: I am not suggesting for one moment that you will do that.

Mr. MACINNIS: But you are suggesting that the rest of the committee will.

Mr. BERCOVITCH: No, I am sure they will not.

Mr. MACINNIS: I appreciate your compliment to me.

Mr. BERCOVITCH: I have too much respect for the rest of the members of the committee to suggest any such thing.

Mr. MACINNIS: We will continue with the commissioner's further statement which is as follows:—

Much stress was laid during the evidence and on argument upon what was termed the "pressure" from either the war office upon Canada or from Canada upon the war office, subsequent to the war office cable to Canada of November 9, 1937 (Exhibit 182). That pressure from Canada upon the war office during the period was continuous is in my view the proper inference from the facts directly proved in evidence. A single document may be taken here or there and, read by itself without the surrounding facts and circumstances, might leave a different conclusion, but the evidence and the surrounding facts must be taken as a whole if a fair and proper inference is to be drawn. In view of what has already been said, it is not necessary to dwell upon this controversy as to "pressure" subsequent to November 9, 1937. It is more important to recall that, as the deputy minister in effect testified, the matter of the choice of a contractor for "departmental guns" was from his point of view virtually concluded by the war office cable of November 9, 1937 (Exhibit 182). The proposed production of Bren guns in Canada having been before the war office almost continuously from Major Hahn's first visit in November, 1936, down to the end of January, 1938, the war office then very naturally expressed its anxiety that progress should be made and suggested that delay might be prejudicial (Exhibit 211).

Mr. McGEER: That is the important part of the whole finding; and it does not end there, Mr. Chairman. Just as Commissioner Davis says, you cannot pick out one clause or phrase, one letter or one document; you must view them all. It is rather regrettable that all those documents were not recited in the commissioner's findings. However, I have no doubt that he had his reasons for that. But the important part of this finding is to be found in the last part of it which carries through to the ultimate finding: "In view of what has already been said. . ."

Mr. MACINNIS: Where are you reading from now?

Mr. McGEER: I am reading from page 48.

In view of what has already been said, it is not necessary to dwell upon this controversy as to "pressure" subsequent to November 9, 1937. It is more important to recall that, as the deputy minister in effect testified, the matter of the choice of a contractor for "departmental guns" was from his point of view virtually concluded by the war office cable of November 9, 1937.

Mr. MACINNIS: After a year's pressure.

Mr. McGEER: That was a cable from the war office advising the Department of National Defence that the British War Office was prepared to execute a contract for 5,000 guns with the John Inglis Company.

Mr. MACINNIS: They had given up the ghost, as it were.

Mr. GREEN: Read the rest of it.

Mr. McGEER: Yes, I will read the rest of it.

Mr. MACINNIS: Yes, continue.

Mr. McGEER: It reads as follows:—

The proposed production of Bren guns in Canada having been before the war office almost continuously from Major Hahn's first visit in November, 1936, down to the end of January, 1938, the war office then very naturally expressed its anxiety that progress should be made and suggested that delay might be prejudicial (Exhibit 211).

At the end of January, 1938, the British War Office asked the Canadian government to confirm what was their part of a contractual relationship which the British War Office had indicated their willingness to consummate on November 9. Now you come to the commissioner's real finding, in which, after reviewing all these facts, he says:—

The contract is not for a fixed sum; it is a cost plus basis. It is admitted that we do not know how much the guns are going to cost. There are, of course, adequate powers of inspection, supervision and control vested in the department under the contract and with the estimates from Enfield of what the guns there are costing it should be possible to keep actual cost here well within bounds.

No substantial objection can be taken in my view to the provisions of the Canadian contract, though in the absence of any competitive bids or terms of manufacture I am unable to pass upon the substance as distinct from the form of the contract. It is important, of course, that the contract be a good and businesslike contract; but what is more important after all is whether the procedure adopted in making the contract was that best calculated to protect the public interest and to secure the confidence of the people of Canada that there would be no improper profiteering the private manufacture of war armaments for the defence of the country.

That is a question upon which the government and parliament, in the light of the evidence brought before the commission, must pass.

Then he goes on to describe the savings and that kind of thing that have been made. Taking the whole evidence—I have gone through it very carefully, and I should like my friends on the other side to help me if they can—I cannot find a single bit of evidence that indicates pressure from the Department of National Defence on the British War Office.

Mr. DOUGLAS: It can be found.

[Mr. C. Fraser Elliott.]

Mr. GREEN: Mr. Chairman, is this not just a matter of argument? We have Mr. Elliott here. He is a busy man. Why not let us finish with him? Then if we want to argue things out later on, all right.

Mr. HOMUTH: Mr. McGeer started it.

Mr. FACTOR: Mr. MacInnis said there was evidence of pressure.

Mr. McGEER: What I should like to point out to the committee is that outside of that introduction of Major Hahn to the British War Office and his being appointed as an agent of the British government—

Mr. BERCOVITCH: The Canadian government.

Mr. McGEER: Or as an agent of the Canadian government, to secure information for the Department of National Defence—

Mr. BERCOVITCH: No; not as broad as that. Only for the Bren gun.

Mr. McGEER: Well, for the Bren gun; then the relationship of agency for the British government ceased.

Mr. McPHEE: The Canadian government.

Mr. McGEER: Then the agency for the British government ceased and Hahn became a potential contractor. His possibility of securing a contract with the Department of National Defence was dependent upon his ability to get a contract with the British War Office.

Mr. HOMUTH: Oh, no.

Mr. McGEER: Right up to the very last. I will just close that up with Mr. Elliott now.

By Mr. McGeer:

Q. As a matter of fact, when the contract was finally revised and determined, it was understood that it was conditional upon the British War Office signing a contract for those 5,000 guns that it would be executed in Canada. That is correct?—A. The interdepartmental committee realized the benefits of joint contracts and moved on that basis, that they were to be joint contracts.

By Mr. Homuth:

Q. But Mr. Elliott, the manufacture of the 7,000 Bren guns in Canada did not depend on getting a contract from the British government?—A. I would say “no” to that; but the contract that came before the interdepartmental committee in relation to the John Inglis Company was only acceptable as a contract with that company providing that company also had a contract with England, which it did have. The two combined required the committee to state either we will culminate this contract or we will lose the benefits of the joint contracts; if we lose the benefits of the joint contracts, I indicate to you that there was not any evidence anywhere to show that we could have got such a saving by competitive bids or from any other company that did not have a contract from England.

Q. But there is nothing to show that the Canadian government was not going on with the manufacture of Bren guns if they did not receive a contract from England?—A. Oh, I rather think that the indication is to the contrary. They said, “If there are any more delays, then England’s interest will cease.”

Q. Oh, quite.—A. The delay would be fatal.

Q. But up to that point there had been practically two years wasted from the time that the Bren gun was shipped to Canada for the purpose of the Department of National Defence considering the manufacture of it here and the time when the telegram came from the English War Office.—A. Well, I would not comment whether it was wasted or taken advantage of. That is not my evidence.

Q. At least there were two years there.—A. Well—

Q. As between the time of the arrival of the Bren gun here in the Department of National Defence and the time that the cablegram came from Sir Harold Brown.—A. As a statement of fact, certainly that is correct.

Q. Yes.

By Mr. Green:

Q. Mr. Elliott, there were four meetings of the interdepartmental committee held?—A. That is right.

Q. They were on January 5, 1938, and January— what was it?—A. January 24.

Q. January 24, February 25 and March 17.—A. That is correct.

Q. Were you present at all those meetings?—A. Yes, I was.

Q. It was at the second meeting, on January 24, that this proposal was made that a cable should be sent to England asking about competitive tenders, was it not?—A. I think that was the third meeting. The records would show.

Q. I think it was the second.—A. I think that cable was the third meeting.

Mr. MACNEIL: It was the second meeting.

The WITNESS: Was it the second meeting? All right.

By Mr. Green:

Q. Is this the cable that was sent on behalf of the departmental committee? I think it is part of exhibit 188. It is dated January 25, 1938, to Sir Harold Brown, and reads as follows:—

Kindly advise by cable production cost in England of Bren light machine gun specifying which major cost factors . . .

A. Without reading it all, I identify it. That is the cable.

Q. I want to read it into the record.—A. I am sorry to have interrupted.

Q. Continuing:—

. . . have been taken into account and given percentage of each cost factor to the whole stop Also the production schedule to which the figures apply stop If exact figures are not available close approximation would be very much appreciated stop This suggestion on agenda discussed to-day by interdepartmental committee when advisability of obtaining tenders on cost plus basis from limited number of selected companies including John Inglis Company was considered stop It is private and not public tender that is intended stop The committee would like to know if this would affect the placing of your order in Canada realizing the probable delay incurred thereby stop This information is for confidential use . . . interdepartmental committee which is working on proposed contract.

It is signed L. R. LaFleche, Deputy Minister of National Defence. That was the cable that was sent?—A. That is correct.

Q. Did you know that General LaFleche was also sending a cable of his own on that day?—A. Yes; he told the committee he thought the department ought to send a cable of its own. He felt that the sending of that cable would be so extraordinary when received by the officials in England without an explanation from the department that he thought it was his duty to send an explanatory cable, and he did.

By Mr. Bercovitch:

Q. Can you tell us why it was put in the cable that private and not public tenders were intended?—A. Well, we wanted to further the possibility of keeping the English contract, at the same time getting the benefit of possibly

[Mr. C. Fraser Elliott.]

competitive bids. We realized to throw the matter open to general competitive bids would be to expose the contract, and the necessary preliminary work that would be required, to a great number of firms, and if they became interested in substantial numbers we envisaged that they would have to send their technical officers to England, where the gun was being made, to ascertain what was really required in the making and how to do it. We did not want to jeopardize the possibility of competitive bids with opening it generally as opposed to privately; therefore we said, suppose we name or indicate that we are going to name some selected, well-established, capable firm in Canada. That is what we meant by the word "private" bids, and not—

Q. Was there not the thought in your mind at the time that possibly the construction of this gun was a secret, and therefore could not be handed out to everyone?—A. There was the thought in there that the exposing of the secrets, in that wide way, might jeopardize the getting of competitive bids, along always with the English contract, so we said a selected list of—

By Mr. Douglas:

Q. Before you leave that, may I ask if these words in the original telegram were drawn by the interdepartmental committee?—A. Yes, in that way.

Q. As I understand from the evidence—A. I am not very sure of that.

Q. I understand from the evidence that the words underlined in the cablegram, exhibit 188, were inserted, of course, with the approval of the committee, subsequently, by the deputy minister of National Defence. These words were underlined "limited number of selected companies including the John Inglis Company; it is private and not public tenders that is intended."—

A. I would modify my recollection by stating that he came over to my office with the cablegram and suggested certain changes, and if they are underlined there, I would say we made those changes and it was done in my office; but I remember very distinctly that we added on this the selected list that we are talking about, and as I remember, I think you will find it underlined there, and the John Inglis Company was included.

Q. Yes, that is correct.—A. I think that is underlined.

By Mr. Green:

Q. If I might go on with my questions, that cable of January 25th on behalf of the interdepartmental committee seems a reasonable enough cable; but apparently later in the same day General LaFleche sent another cable, this time sending it on behalf of the defence department.—A. That is correct.

Q. Did you know before that second cable was sent what the terms of it were to be?—A. No; he sent us copies of it.

Q. After it had been sent?—A. Yes.

Q. It is filed as exhibit 212, as a part of that exhibit, and is a memorandum to the members of the interdepartmental committee dated January 26, 1938. May I read that, Mr. Chairman? This is the second cable sent on the same day from General LaFleche to Sir Harold Brown, but at this time it is sent by the National Defence department, and it is as follows:—

Reference message sent you earlier to-day it is deemed necessary to explain the position and the considered opinions of Department National Defence in regard to proposed contract with John Inglis Company for manufacture of Bren light machine gun Stop There is here an interdepartmental committee on the control of profits on government armament contracts, which is composed of representatives of Departments of Finance, National Revenue, Labour, Trade and Commerce, and National Defence with myself as chairman Stop This committee was created by order in council on March fifth 1937 Stop Department National Defence submits to committee proposals including cost plus contracts when competition cannot be secured in the usual manner Stop

National Defence subject to possible discussion minor details is satisfied with John Inglis Company proposed contract Stop National Defence technical officers are satisfied that John Inglis Company can produce Bren gun Stop National Defence opinions have been explained to interdepartmental committee and your cable one nine nine four three dated November ninth 1937 indicating War Office readiness conclude negotiations for five thousand order with Inglis company was submitted to the committee Stop National Defence has explained to the committee that it is extremely urgent to proceed immediately and has pointed out that much delay has already occurred Stop National Defence is definitely in favour of going ahead now but perhaps quite naturally representatives of other departments are not as much impressed by necessity of speeding up Canadian rearmament as are National Defence personnel Stop National Defence wants the guns as quickly as they can be obtained and, for obvious strategic reasons wants to be able to have the guns produced in Canada Stop Major Hahn president of John Inglis Company of Toronto took up with this department and with you question of orders for Bren guns long before interdepartmental committee was created Stop National Defence has not investigated any other Canadian company with a view to manufacture Bren guns and is anxious to see Major Hahn proceed immediately London for final negotiation with you Stop National Defence realizes that approach to other companies would cause very considerable delay Stop Apart from all the other hazards attendant upon possible further delay National Defence does not believe it logical to delay in view of probable rising labour, machinery and material markets Stop United States armament program will undoubtedly be a factor within a few months Stop In fairness I have informed representatives other departments of the exact terms of this message.

L. R. LaFleche.

Actually you were not informed of the terms until after the cable had been sent?—
A. That is my recollection.

Q. That cable rather puts a spoke in the earlier cable—

Mr. MCPHEE: A very clarifying cable.

The WITNESS: That is a matter of opinion; it is hardly evidence. I prefer to pass it by, if you do not mind.

By Mr. Green:

Q. At this meeting the day before, January 24th, was Major Hahn present?—

A. Oh, yes, Major Hahn—Major Hahn? No, he was not present.

Q. The interdepartmental committee refused to allow Major Hahn to attend the meeting?—A. We were busy in other directions, and did not want to break off to discuss with him. The committee saw him, to answer you specifically, for the first time as a committee—that is my statement—in the last meeting. He was before the interdepartmental subcommittee, but he was not before the committee as such until the last meeting.

Q. And were you told that Hahn was going at once to England?—A. No, I do not think we were.

Q. Although General LaFleche in the second cable points out that he is anxious to have him proceed to London immediately.—A. That is in the cable, yes.

Q. You did not know until subsequently that Hahn had packed up at once and gone off to England?—A. I said a little while ago I did not get the information in any committee meeting; I picked it up from general knowledge. From what source, I do not remember, but I knew it after the cable had gone, obviously.

[Mr. C. Fraser Elliott.]

Q. These two cables that Sir Harold Brown cabled back that delay would be fatal, or whatever it was—A. Well, I would say in my reply that it was a reply to the cable we sent, because I would not say it is in reply to the two cables. The reply came in response to our cable, which started "Kindly advise."

By Mr. Bercovitch:

Q. What exhibit is your cable?—A. It is exhibit 288.

Mr. DOUGLAS: Exhibit 188.

By Mr. Green:

Q. Well, Mr. Elliott, I would refer you to part of exhibit 230 which is a letter from Sir Harold Brown to General LaFleche dated the 16th February, 1938, and which starts out:—

Very many thanks for your letter of 31st January, and for your cables, etc., regarding the Bren gun position, which I hope is now all clear. I shall hope to hear from you very shortly to this effect. I quite appreciate your position in this matter and I hope my replies to your cables have met requirements.

A. That is new to me; I did not know anything about it.

Q. You had not heard of that before?—A. No, not at all.

Q. At any rate, it is quite obvious that the attitude of the interdepartmental committee and the attitude of the Department of National Defence on this matter were very far apart?—A. Well, I have endeavoured to explain the attitude of the committee and if you do not mind you will have to draw your own conclusions from the attitude of the department of defence.

Q. The third meeting was on February 25th and the minutes of that meeting will be found as part of exhibit 63. At that meeting despite the fact these cables had been received from England the members of the interdepartmental committee again complained that there had been no competitive bids, did you not?—A. Well, I do not know that I join with the word "complain." We were anxious if possible to join up competitive bids with the securing of the guns in collaboration with the English authorities and with their contractual undertaking to buy 5,000 guns. That word "complain" leaves something to be desired. We were not complaining; we were working it out together, and if possible we wanted to join competitive bids with the English contract.

By Mr. Bercovitch:

Q. Did you have the cable just read, exhibit 188, before the interdepartmental committee on the third meeting?—A. At the third meeting?

Q. At your third meeting?—A. Yes, it would be in the record by then.

Q. Do you know whether it was discussed or not at that meeting?—A. Not as a cable, but you realize all the cables were discussed.

By Mr. Green:

Q. I overlooked something in regard to the second meeting on January 24th. These minutes are part of exhibit 63. The last paragraph reads as follows:—The chairman of that meeting would be Colonel LaFleche, as he was then, would it not?—A. That is correct, yes.

Q. Before the meeting adjourned, the chairman urged that instead of sending the cable above quoted the department would prefer to have Major Hahn proceed immediately to England, as he sincerely believed this to be the only way to speed matters, stating that the one factor which

each of the members of the committee can accept as satisfactory would be the declaration by the War Office that a price is or is not satisfactory. Some members disagreed, and when the chairman asked those who insisted that the cable be sent to indicate it, all members, other than those representing the Department of National Defence, did so.

A. I think that is a fair reflection.

Q. Well, in the face of that, Colonel LaFleche saw Major Hahn or agreed with Major Hahn that the latter should go to England at once?—A. Oh, I could not say yes to that last comment.

Mr. DOUGLAS: He knew he had gone.

By Mr. Green:

Q. The second cable mentioned that?—A. As a matter of my evidence, I do not know that.

By Mr. Factor:

Q. The second cable merely mentioned Major Hahn could go to finally negotiate.

By Mr. Green:

Q. That he is anxious to see Major Hahn proceed to England. The third meeting was on February 25th, 1938?—A. That is correct.

Q. And again both yourself and Dr. Clark of the Department of Finance took the point rather strenuously that the committee should even yet consider competitive bids, even in the face of the cables from England; that is right?—A. That is right.

Q. For example, on page 2 of the minutes of the meeting we find this:—

Dr. Clark then stated that his only objection to entering into the contract with the John Inglis Company was the fact that competitive tendering had not been entered into with three or four other companies capable of manufacturing guns, explaining that he could not, as a member of the committee, take responsibility for the way in which this particular company was selected.

At the bottom of page 3 there is this reference to yourself:—

Mr. Elliott stated that this contract might lay the foundation for the manufacture of Canada's armament for many years to come, and that having regard to an all-time contractual relation, he considered that the ten per centum of all costs was very high, going on to state that there were many contractors who would like to have this contract because of the future rights in it for all time to come, but if the above is over-written by the urgency of the moment Mr. Elliott agreed that the committee go into the terms of the contract, but that he objected to the word "exclusive" in the second line of the section numbered 1.

That is correct, is it?—A. That is correct.

Q. On page 4, this reference will also be found:—

Doctor Clark—"I cannot conceive that the war office is willing to deal only with one Canadian company, a company which has been through receivership very recently."

[Mr. C. Fraser Elliott.]

The upshot of it all was that the committee were told by the Deputy Minister of National Defence that the department would take responsibility for the contract and that it had to go through.—A. Well, as I indicated very early in our meetings, the Deputy Minister of the Department of National Defence, under the terms of the order-in-council, referred to the interdepartmental committee only those contracts that were non-competitive. That is what the order-in-council provides for. So that when they referred this contract to us, by the very fact of referring it, or in the face of the order-in-council, it meant that they had already assumed the responsibility of contracting with the John Inglis Company. Therefore, the third meeting of the interdepartmental committee, in relation to the pressure that the members of the committee put on for competitive bids, was simply to reaffirm that responsibility which was theirs, which they had taken and which he was again reaffirming in that third meeting. The cause of reaffirming it was that the other members of the interdepartmental committee obviously had some apprehension as to the advisability and perhaps the suitability of the John Inglis Company to alone undertake the performance of this contract; and we wanted to get those established firms into line for competitive bids, and when we kept pressing for that it occasioned the remark by the chairman that, "Well, the one contractor, and the responsibility for dealing with him, is a responsibility that we take." You will read in the minutes, now that I have brought myself to a recollection of them, that he said that six months ago in respect of other contracts. He said, "The fact is that the order-in-council requires us to refer to you non-competitive bids. That is our responsibility; we took it then; we take it now."

Q. What it really amounted to was this: That the Deputy Minister of National Defence said that it was none of your business?—A. I would not like to say "Yes" to that. He knew it was our business from the very fact that we were pressing him to consider the advisability of approaching England with a view to getting bids from a selected list. That was our business, and he was not so abrupt or rude as to tell us that it was none of our business.

Q. Perhaps it was not in that rude language but the meaning was the same?—A. No, it was a developing circumstance that was worked out by our respective viewpoints. The Department of National Defence had theirs, and we, who are not of the Department of National Defence but who are of the committee, had ours, and we took time and conversations to harmonize them.

Q. At page 41 of the report of the commissioner this reference appears:—

Mr. Elliott said that the committee's suggestion of a further wire gave great concern to the chairman.

You had suggested that a further wire be sent at the third meeting?—A. Yes, because the cable that we had received did not state categorically that England would definitely withdraw her interests in the making of Bren guns in Canada if we asked for competitive bids. Therefore, I said, "Let us get a categorical statement that she will not give this contract in Canada if we open it up even to a selected list of competitive bidders." I said, "Let us find that out definitely," and then General LaFleche became somewhat alarmed.

Q. What did he say?—A. He indicated that sending back a cable again in the face of a cable which he thought was obviously clear might really jeopardize the English contract, and he was so concerned at losing it that he thought the evidence before us was ample and that we would only be aggravating an already well-determined and clearly stated position. In the result we did not send another cablegram.

Q. The commissioner quotes from your evidence at page 41, and this is your evidence:—

He really felt so strongly about it that it amounted to a suggestion that we must not do it. And the committee accepted that.

Mr. McGEER: The committee did not accept that because they did send the cablegram?

The WITNESS: No, no.

By Mr. Green:

Q. There was no cablegram sent after the third meeting, was there?—
A. That is correct.

Q. What happened was that the committee gave in on the question of getting other tenders.—A. In the result the committee obviously agreed because they did not send another cable.

Q. Why did not the committee have that reported to the cabinet?—
A. To the cabinet?

Q. Yes.—A. You will observe by the order-in-council that we were an advisory committee in respect of contracts that were non-competitive. When the committee—

Q. Pardon me; where is the order-in-council to be found?

Mr. MACNEIL: Exhibit 46. Could we have the order-in-council put on the record? I am anxious to ask some questions about it.

By Mr. MacNeil:

Q. This order-in-council was a result of the report of the Skelton committee.—A. That is correct.

Mr. MACNEIL: The gist of that report is embodied in the order-in-council, which is as follows:—

P.C. 439

CERTIFIED to be a true copy of a minute of a meeting of the committee of the Privy Council, approved by His Excellency the Governor General on the 5th March, 1937.

The committee of the Privy Council have had before them a report, dated 2nd March, 1937, from the Minister of National Defence, stating that an interdepartmental committee formed under the instructions of the Right Honourable the Prime Minister, to consider certain questions pertaining to the control of profits on government armament contracts, has in its report suggested that there be instituted a standing interdepartmental financial committee to assist the officials charged with the placing of contracts under the defence program, and that such a committee "might study and classify the requirements of the defence program from the financial point of view and formulate or advise upon the financial principles or safeguards to be observed in placing contracts of various types, and as to rules of procedure."

That it was also suggested that this committee "might be available for consultation upon the financial aspects of any unusual specific cases or conditions arising from time to time, and that it would be limited to this function of assisting in the prevention of undue profits, that is to say, it would not be concerned with other aspects of the defence program."

The Minister is of the opinion that a committee whose functions and duties would be generally as set out in the suggestion aforesaid would be in the public interest, and therefore, recommends:—

1. That there be formed a committee to be known as the interdepartmental committee on the control of profits on government armament contracts, said committee to consist of one representative from the Departments of Trade and Commerce, Labour, National Revenue (Income Tax), Finance, and the Deputy Minister of National Defence and one official or officer of the Department of National Defence, with the Deputy Minister of National Defence as chairman of said committee.

[Mr. C. Fraser Elliott.]

2. That the duties of this committee shall be generally to study and classify from the financial point of view the various requirements which the government's defence program involves, and when it is considered by the department concerned that effective competitive tendering cannot be secured in regard to any of its requirements, to formulate or advise upon such principles and safeguards, whether of a general or specific nature, which in this connection the committee considers should be observed, and to communicate to all departments concerned such information in this respect as the committee considers should be in their possession.

3. That such departments of the government as have occasion to make purchases of armament and/or mobilization stores, and/or to arrange for services directly or indirectly connected therewith, be directed to refer to said committee all questions relating to scales of prices, quotations, and similar financial matters whenever it appears or seems to appear that prices quoted for any articles, stores, etc., which are sought to be purchased are not obviously fair and reasonable.

4. That the committee shall be authorized to obtain from any department of the government such information regarding the matters coming within the scope of its duties and functions as it deems necessary, and that it shall have power to call before it any officer, official or employee of the government of Canada or of the Naval, Military or Air Forces of Canada, for the purpose of obtaining advice or information with respect to any of the matters wherewith the committee is empowered to deal.

The committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,

Clerk of the Privy Council.

By Mr. McGeer:

Q. The order in council very definitely places the responsibility on the departmental committee to protect the government in all financial aspects of the contract? That was your job, was it not, Mr. Elliott?—A. Oh, no. You said: "definitely places the responsibility on the committee in regard to all financial aspects of the contract."

Q. To protect the government?—A. Yes, but it does not definitely place all responsibility on the interdepartmental committee; far from it. What it does is to appoint a committee, as the order in council states, to generally study and classify, from the financial point of view, various requirements which the government's defence program involves. I will explain that part and I then will go on with the rest of it in answer to your question.

Now, what was the broadest classification of contract which you could make? Naturally, those that are competitive take care of themselves. One competes with the other and you get the lowest price. The next are those contracts that are non-competitive. Now, that is the broadest classification. The order in council states, "when it is considered by the department concerned"; that is, when it is considered, in this case, by the Department of National Defence. And "that effective competitive tendering cannot be secured in regard to any of its requirements, to formulate or advise upon such principles and safeguards, whether of a general or specific nature, which in this connection the committee considers should be observed." That is far from placing the responsibility for the financial terms and conditions of the contract upon the interdepartmental committee. Specifically they were nothing more than an advisory body, and, so far as their advice could protect, formulate and direct matters pertaining to contracts, we were so to advise. But I repeat we were not the body responsible for the contract. When the contract was referred to us—

Q. I did not say "responsible for the contract," Mr. Elliott; I said "responsible for the protection of the government in regard to the financial aspects of the contract." Now, when a government creates by order in council a specially selected committee of high officials of the government to advise with respect to certain matters they expect to follow that advice and to depend upon it?—A. And if they do not, then what?

Q. Well, but the point is this, and I do not think we should get at cross purposes on a matter which I think is so clear—A. No.

Q. There was no one else that the governor in council was able to depend upon in the matter of advice other than that committee? There was no one else appointed?—A. That is right.

Q. The government had decided that they wanted a committee of independent, competent men to advise them?—A. That is right.

Q. Who else was the Governor in Council to look to for guidance in this matter other than your committee?—A. They certainly did look to us to give guidance in matters pertaining to the contract, but not to take the responsibility.

Q. I think I see your point.—A. Yes.

Q. That the Governor in Council was not delegating final responsibility to this committee in the matter of the confirmation of the contract, but in so far as technical advice in regard to the financial aspects of the contract were concerned they delegated the responsibility of advising the government as to whether the contract was ample or otherwise?—A. That is correct.

Q. And it was your duty to advise the government, or the Governor in Council?—A. No, no; I do not agree with that.

Q. Or, to advise the department concerned?—A. Right.

Q. As to whether or not the provisions protecting the government against undue profits were sufficient?—A. When in the opinion of the department effective competitive tenders could not be secured.

Q. Quite true.—A. Then—I am reading from the order in council—then we are to advise on the concise terms of the contract.

Q. Quite true; and in this case you decided apparently to go a little bit further in an endeavour to exclude this particular proposition from that category of non-competitive tender contracts?—A. Because we thought that was the principle that should be carried out if at all possible.

Q. If at all possible?—A. That is right.

Q. And you eventually came to the conclusion that in the interests of the Canadian government in this instance it was not either practical or possible?—A. That is correct.

By Mr. Green:

Q. You came to that conclusion after Colonel LaFleche told you to stop?—A. No, no; whether he said stop or not. If we were to lose the British contract by reason of the enforcement of competitive bids we were losing a very real asset that this John Inglis Company had; namely, their contractual relationship. As I said earlier, I think the committee would have been in a very undesirable or invidious position if they had refused to go on with this, and if after that refusal competitive bids had been secured and it was found that no competitive bidder could make 7,000 guns in Canada for anything like the price that we were getting when we got one-third of the capital machinery paid, and we got a spread of the cost over 12,000 instead of 7,000 guns.

By Mr. Homuth:

Q. But that position was ruled out at that late date?—A. The very force of the circumstances that were then extant—

[Mr. C. Fraser Elliott.]

By Mr. Brooks:

Q. Was it not on account of developments over which your committee had no control that your committee had to come to that conclusion?—A. We certainly did not have any control over the British refusal or acceptance of a contract with the John Inglis Company. We had no influence over that.

By Mr. Douglas:

Q. Your committee was not convinced that you were losing the contract, it was only because, as you said yourself in evidence, that the chairman felt so strongly that you ought to accept it?—A. No, no; we believed, as Sir Harold Brown said, that further delay would be fatal.

Q. That wire came on the 4th of February?—A. We were still of the view, could we not possibly get the benefit of competitive bids and still hang on to the English contract.

By Mr. Green:

Q. Even then you wanted to inquire?—A. There is no doubt of that. The general consensus of opinion was that while we declared ourselves in favour of that, if we were to insist upon it we might lose the very thing we wanted to secure.

By Mr. Brooks:

Q. If you had been consulted earlier would you not have recommended competitive bids, if time had not been such a determining factor in the matter?—A. Certainly. We recommended it. We had recommended it before, and if I were to make any other statement than that now I would be horribly inconsistent.

By Mr. Douglas:

Q. In this order in council setting up the interdepartmental committee was there any provision by which the interdepartmental committee might give its views to the Governor in Council?—A. No, not any.

Q. Not directly?—A. That question was asked by Mr. Green a little while ago. I started to explain it when Mr. MacNeil read into the record the order in council. You have all heard the order in council.

MR. GREEN: I think it would be better if that order-in-council were put in as an exhibit. Mr. MacNeil did not read all of it, he summarized part of it and read part of it.

MR. McGEER: I move that we incorporate the order-in-council in full in to-day's proceedings.

MR. MACNEIL: Could it not be taken as read, and put it in in full at the point where I introduced it?

THE CHAIRMAN: Yes, that is what we will do.

Your question was, is there anything in the order-in-council which permits the committee, or directs the committee, to report back to the Governor in Council?

MR. DOUGLAS: To give its views as an advisory committee; or, if you like, to give its advice to the Governor in Council.

THE WITNESS: That is it. I am going to answer that, so far as the matter is pertaining to the Bren gun matter which is before us—we are not going, I hope, to enter into the field of the general wide possibility of what this might mean in other directions which are not extant—The committee had before it a non-competitive contract which obviously after receipt was referred by the Department of National Defence to us as a contract wherein effective comparative tenders could not be secured. The committee had to consider that.

In considering it there were differences of opinion on many things, but finally we got to the point that we were just discussing, about the cablegram, and the repercussions of several cables to England by the deputy minister of National Defence. Question: What should members of the committee do on that point if they felt the pressure was undue? Now, I am going to skip over the fact that we thought the contract was a good one and that England would not contract anybody else, therefore, we entered into the contract because of the economy it offered to us. Now, the interdepartmental committee appointed by order-in-council has a chairman, and in this case the chairman was the Deputy Minister of National Defence; and we were to advise that department, as the order-in-council states, in non-competitive contract matters. Four members on a committee—I think there were four, and the chairman made the fifth—four of the members of the committee were from other departments, and when we advise on munition matters, the Deputy Minister of National Defence realizing that he was the chairman of the committee and likewise the deputy minister of the department, was in a dual capacity as it were. Now, wherein you insist that that which he was doing was wrong, the natural thing was for the committee to give the advice for which they were asked, and that that advice should be carried to the higher authorities through the chairman of the committee. If it were otherwise, examine the situation: Four members would go where? They could not go direct to the Governor in Council because they had no approach. I think the approach would be through their ministers. So they would go to their ministers and they would say this is wrong in this direction, explaining it; each man would explain to his own minister and when these ministers got to council why there would be a divergence of explanation that would be thus formed; there would be some conflict right away. But, is it right for members of a committee to disperse to their respective ministers and report to them and ask them to report to council? My thought is, definitely, no. Therefore, the normal procedure would be to report through the chairman of the committee. That chairman would report to his own minister, and his own minister would carry the affairs of that committee to council. Any other procedure seems to me to be carrying matters outside the well established and well recognized channels through which committees should and do function.

Mr. GREEN: Of course, Mr. Elliott, the commissioner found on that very point (at page 41) where he says, dealing with this third meeting of February 25:—

The system broke down when the committee failed to report back to the body that had created it. Then failure to report was not a matter of misconduct; it was a failure to recognize the importance of their committee as part of the administrative system of government. There is not a suggestion that the members of the government ever heard of these difficulties which confronted the committee or of the attitude that was taken by members of it to the proposed contract. The Minister of National Defence did say that he was informed in a general way, not in great detail, of the progress of the discussions in the committee by the deputy minister but he never saw the minutes of the meetings of the committee (Exhibits 60 and 63) until this inquiry commenced. The reports he had from his deputy minister respecting the interdepartmental committee's activities are Exhibits 243-244 of March 21, 1938, after the committee had ceased to function on this contract.

In actual practice the position of the committee, or of the members of the committee, was such it seems to me that the chairman, the Deputy Minister of National Defence—how could you possibly expect him to go back to his department and report successfully, in its most favourable light, the stand taken by yourself and other members of the committee?—A. Your last statement, that

we were in disagreement with him, was not correct. Somebody disagreed at every meeting on several points, but there was final conclusion by the committee. Why, it seems to me reasonable to expect when we had four members on that committee that there would be differences of opinion. You will find that same thing on any committee, there might even be serious disagreements.

By Mr. Green:

Q. Why did he ask you to stop?—A. What a committee decides is not a disagreement.

Q. Why did you not take some steps to see that the cabinet knew that the members of that committee differed very much, that they were very much worried about the fact that there had been no competitive bids?—A. All right; let us examine this statement: That is another way of stating your question now, the system broke down. Now, we have just gone over the ground of the system that was established. It is quite easy to say that a system broke down without indicating what a system is. I just examined the system. It is universal. It is used in every government. It was used in this government. And a committee always reports through its chairman. What he really means to say, if I understand it at all, is because he thought there was some disagreement that was fundamental to members of the committee that we should therefore do the extraordinary thing of not following the system, but break the system and go and report, as I have described, through our various ministers. To that, as I told them on the stand, I did not agree; and I do not agree. The system did not break down. I say to you, Mr. Chairman, the system stood up splendidly, and we went as far as we could to get competitive bids without going so far as to insist with England on having competitive bids, without insisting that we were going to have them whether England wanted them or not; we said, we will take your contract. That was unanimous. There was no breakdown. There was no report.

Q. However that may be, the fact of the matter is that you were very deeply concerned about the fact that there were no competitive bids?—A. The way the contract came before us the report should have been through the minister to the cabinet. If that practice was not followed, if there was a breakdown, put the breakdown where it belongs.

Q. In this case it is obvious that the information did not get back to the Minister of National Defence.—A. I would say it is obvious, clear.

Mr. McGEER: I do not like to interject, but if you would only read the evidence you would find out that that is not so.

Mr. DOUGLAS: Oh, we have read the evidence.

Mr. McGEER: No, I do not think you could have.

Mr. DOUGLAS: Yes, we have.

Mr. McGEER: Well, you may have read it, but if you did you evidently have not remembered what you read, otherwise you would not be saying what you do. Mr. Green is now stating that because the chairman of this committee, the Deputy Minister of National Defence, did not report to the minister, and because the minister did not report to the cabinet that the members of the interdepartmental committee were concerned and wanted competitive bids—

Mr. DOUGLAS: That is not what he said, of course.

Mr. BROOKS: You are putting the cart before the horse.

Mr. DOUGLAS: Yes, you are putting the cart before the horse.

Mr. McGEER: Oh, you just keep quiet. Just a minute, let me get this straight—

Mr. MacNEIL: Mr. Chairman, I object; Mr. McGeer is not running this committee. The chairman is running it.

Mr. McGEER: I am not trying to run it. Mr. Green asked a question—

Mr. DOUGLAS: I just want to tell you, Mr. McGeer, that you cannot tell me to keep quiet at any time, either inside this house or outside.

Mr. McGEER: What I wanted to point out is this: I am asking Mr. Green as to his question; I know that he wants to get a correct presentation of his statement of fact. What I said was this, that having examined Mr. Elliott as to whether the statement in the commissioner's findings that the system had broken down because the interdepartmental committee did not report to council, Mr. Elliott then explained in detail that the proper way for the committee to report was through the chairman to the minister of the department and through the minister of the department to the Governor in Council. I understood Mr. Green to say that the deputy minister did not report to the minister, and the minister in turn did not report to the Governor in Council before the contract was signed, that there was concern and desire on the part of members of the interdepartmental committee for competitive bids, and that the system therefore had broken down. Now, if I am wrong about that I will ask the reporter to read Mr. Green's question.

Mr. GREEN: Perhaps it might be better if I were to put my question again. We have been talking so much about other things, perhaps it would be better if we were to get it correctly.

Mr. DOUGLAS: Can the witness not answer it?

Mr. McGEER: No. I am speaking on the position now, because I say that the evidence is clear on that point.

Mr. DOUGLAS: The witness is giving evidence.

Mr. McGEER: The question at the moment was as to whether or not we had read the evidence.

Mr. GREEN: I am trying to clear up the evidence before Commissioner Davis.

Mr. McGEER: Quite so. I think that is one of the most important things that this committee has to deal with.

Mr. MacNEIL: That is agreed.

Mr. DOUGLAS: The witness gave evidence before the commissioner. He was on the interdepartmental committee. He is the person to give evidence on this.

Mr. McGEER: No. What we are dealing with is this. I want to be very clear. What I understood by Mr. Elliott's answer to that question was that if it broke down because the chairman and the minister did not report to the Governor in Council, that was no good reason for saying that the interdepartmental committee system broke down. Is that not correct, Mr. Elliott?

The WITNESS: That is correct.

Mr. McGEER: I am right on that.

Mr. DOUGLAS: That is agreed.

Mr. McGEER: What I want to point out to the committee is that before Commissioner Davis there was a report to the commissioner which was in turn placed before the cabinet before the contract was signed.

Mr. MacNEIL: What is the exhibit number?

Mr. McGEER: That exhibit is 244.

Mr. GREEN: Then it was the cabinet that broke down and not the interdepartmental committee.

Mr. McGEER: I do not know. Let us get this point cleared up. If you will read exhibit 244 you will find this significant statement in that report:—

"Some members insisted that a cost plus contract be submitted to tender by selected Canadian firms. It being the expressed wish of a majority of the mem-
[Mr. C. Fraser Elliott.]

bers, this was referred to the war office officials with the result that they nearly dropped the matter." This was the report of the deputy minister and the evidence shows that it was before the council before the contract was signed.

Mr. DOUGLAS: Can we get some information about that from the witness? I think that is the thing to do. That is the exhibit. There is no use discussing the exhibit until we know something about it. We should, first of all, know if this is a report from the deputy minister to the Minister of National Defence or if it is a report from the interdepartmental committee.

The WITNESS: Are you asking me that?

Mr. DOUGLAS: Yes.

The WITNESS: I think he is reading from something that the deputy minister reported upon and is not a committee report at all.

By Mr. Douglas:

Q. Did the committee see that report or authorize that report?—A. No.

Q. Which was being handed in as an expression of their point of view?—

A. We did not see it.

By Mr. McGeer:

Q. No, you are wrong about that. This is a committee report.—A. Let us get the thing right.

Q. This is a report of the deputy minister and chairman of the interdepartmental committee.

Mr. GREEN: That is the question.

Mr. MACNEIL: Was it approved?

Mr. McGEER: He asked if it was sent by the deputy minister as deputy minister or as chairman of the interdepartmental committee.

Mr. DOUGLAS: No, I did not ask that. What I asked was this, Mr. Chairman: Is this a report from the deputy minister, who was also chairman, to the Minister of National Defence or was it a report by the interdepartmental committee, a report in which they concurred in their point of view on this particular contract?

The WITNESS: Is that exhibit 244 that you are referring to in your question?

Mr. DOUGLAS: Yes.

The WITNESS: If you look at the exhibit, you will see that it states, "The honourable the minister." That is to whom it is addressed, obviously; although in the exhibit it has no signature to it. "Bren gun proposed contract, John Inglis Company Limited" is the heading; and then it starts in as follows: "The last meeting of the committee was held—"

By Mr. McGeer:

Q. What did you say? Did you say that there was no signature?—A. Not as I turned it over.

Q. It is signed "deputy minister and chairman of interdepartmental committee."—A. The chairman will bear me out that there is no signature on my copy.

Q. It is on mine.—A. Am I right, Mr. Chairman?

Mr. DOUGLAS: What are you referring to,—exhibit 244?

Mr. McGEER: Exhibit 244.

The WITNESS: There is no signature on mine.

By Mr. McGeer:

Q. There is a place for the signature of the deputy minister?—A. Not on mine.

By Mr. Factor:

Q. Is there not a line underneath?—A. Nothing. It is a blank piece of paper with not a mark of any kind on it. There it is. When we compare them, the one that Mr. McGeer presents has the words, “deputy minister and chairman of the interdepartmental committee” and the one I looked at has nothing on it. Am I right? That is 244.

Mr. MACNEIL: There is something preceding that.

The WITNESS: There may be a preceding part.

Mr. DOUGLAS: Yes.

The WITNESS: Oh, it is explained by the fact that Mr. McGeer is looking at the—

Mr. DOUGLAS: Appendix?

The WITNESS: No, the opening part of the exhibit; and I was looking at the tail end of it—because that was handed to me,—thinking that was the whole exhibit.

By Mr. McGeer:

Q. My exhibit is complete; that is the complete report.—A. If you turn over the page there, that is still 244. I am talking about this page, and you are talking about the other page.

Q. Would you look at the part of 244 where the report about this meeting is?—A. Yes.

Q. The one I was dealing with?—A. On page 2.

Q. The report dealing with the matter under discussion by the committee.

Mr. HOMUTH: You are dealing very well with one.

Mr. McGEER: I grant you this is an important matter.

Mr. DOUGLAS: I have not yet got my answer.

The CHAIRMAN: Have you got the page?

Mr. DOUGLAS: Yes.

The WITNESS: To answer it again—

Mr. DOUGLAS: In the first part?

Mr. McGEER: That is the part I read.

Mr. MACNEIL: What is the page?

The CHAIRMAN: Order, please.

Mr. McGEER: Mine was page 2 of that.

The CHAIRMAN: Do you want the question put again, Mr. Elliott?

Mr. McGEER: It was the first part of exhibit 244, and then the signature is on page 4. There is another supplement to that, outlining the principle features of the contract. But the thing I had in mind was whether or not the deputy minister, as chairman of the interdepartmental committee, had reported to the minister and he in turn to the governor in council the dispute or desire of the interdepartmental committee members for competitive tenders.

Mr. DOUGLAS: I asked a question; I wonder if I might get it answered. I should like to get this document identified.

The WITNESS: May I repeat that question?

By Mr. Douglas:

Q. Yes.—A. After all this discussion?

Q. Yes.—A. The question was: Did the interdepartmental committee make a report or, I will add to it, see the report referred to in exhibit 244?

Q. Or concur in the report?—A. Or concur in the report.

Q. Yes.—A. If you will look at the exhibit you will see that it is to “the honourable the minister.” That would mean the hon. Minister of National

[Mr. C. Fraser Elliott.]

Defence. It is dated the 21st March, 1938. The last meeting of the inter-departmental committee was on March 17-18, in the same month. This is signed—there is a place for the signature of the deputy minister and chairman of the interdepartmental committee. There is attached to this a further report to “the honourable the minister” bearing date of 21st March, 1938, which has no signature space provided and that exhibit 244 was not before the inter-departmental committee. It was not approved by the interdepartmental committee. The interdepartmental committee did not know of it.

Q. In other words, this is a report by the chairman or by the Deputy Minister of National Defence to his chief?—A. That is correct, on the face of the document.

Q. Yes.

By Mr. Green:

Q. And a month later than the meeting of the committee?—A. No, very shortly after. I would say three days after March 17-18.

Q. The meeting we were dealing with was the third meeting, of February 25th, when this question came up.—A. Oh, yes. But this report was three days after our last meeting. I do not think it would be right to refer to some first, second or third meeting.

Q. Did the interdepartmental committee make any report to anybody after their third meeting?—A. As a document approved by the members of the committee, no.

By Mr. McGeer:

Q. Why not?—A. The main reason was that the contract, as I told you before, had to be approved on the night of March 17-18 because it was going to go to council the next day at eleven o'clock, so we were advised; so we worked diligently or we worked at it that night and it was to be thrown in form for council. When we dispersed that night at three o'clock in the morning we did not write any resume of that which we had discussed and of that which we had passed.

Q. Was there anything in your mind as a member of that committee that should be reported to the governor in council that is not contained in this report of the deputy minister?—A. In my mind? That is a very personal question.

Q. Or in the minds of the members of the committee, I mean to say?

Mr. DOUGLAS: That is more difficult still.

The WITNESS: That is true; but I think it is a little better question than the personal one.

The CHAIRMAN: It covers more territory.

The WITNESS: The committee would believe—as would the members of any committee—that its activities would be reported through the chairman and appropriately reflected to those in higher places.

By Mr. McGeer:

Q. I quite agree; and as a matter of fact, that was the procedure that was followed?—A. I believe that is so.

Q. As indicated?—A. That is subsequent.

By Mr. Factor:

Q. And there is no provision in the order in council which created the interdepartmental committee for it to report directly to the Governor in Council?—A. I have explained that before, and I agree with that.

Q. Yes. The only way the committee could report the proceedings of the committee was through the chairman of that committee.—A. That is all.

By Mr. MacNeil:

Q. There is one sentence here which says you are required to communicate to all departments concerned such information in this respect as the committee considered should be in their possession.—A. That is in the third paragraph, I believe.

Q. It is in the second paragraph, dealing with the duties of the committee.—A. That is reporting to the departments, I think, matters such as we did to labour. We said to the Department of Labour, "What are the appropriate labour charges?" We had a member from the Department of Labour on the committee. Then we asked them to give us a statement of the different labour costs in England and Canada, so that we could get the comparative price of the guns. I think that is what it refers to there, that we could go any place in the government, in any department, for assistance; but not to report back to those other departments; I do not think that is any point of argument.

By Mr. Douglas:

Q. In other words, since there was no machinery set up whereby the committee might report directly to the governor in council, in the event of a disagreement in the committee on a policy— —A. Yes.

Q. —as there was in this case—there was no machinery at all by which a majority or minority report of the different points of view might be presented, other than the report of the chairman.—A. Oh, yes.

Q. As to his impression of the point of view of the different members.—A. The machinery is the same as in any other committee. If you are a minority member of a committee on a particular point, you say to the chairman, "I wish to have my minority views recorded and reported upon in the usual manner."

By Mr. Factor:

Q. Finally there was agreement in that committee?—A. Quite so.

Q. But Mr. Douglas says there was disagreement in the committee.—A. Well, there was; but not in finalities.

Q. Exactly.—A. But there was during the development and building up; but in the finality there was agreement.

Q. There was agreement in the committee finally?—A. Certainly.

By Mr. Green:

Q. Am I putting it fairly if I put it in this way; this committee which, after all, was composed of very responsible members of the service, when they were dealing with the situation—at the start, at least—dealt with it as though there were no limitations on their powers; but when it came to the fine point, Col. Lafèche referred you to this order in council appointing your committee and said, "Here, this suggestion of yours to the effect, that there should be competitive tenders is a matter for the Department of National Defence, and under the order in council you have not the power to deal with that; my department will take all the responsibility."—A. That is what he said. But let me interject a personal view here. I think it will help the committee. If, after all the matters we did consider, I personally was still of the opinion that competitive bids were the right thing, I say right now that no chairman could have stopped me from getting my views through to the minister or the cabinet or anybody else. But I was not of that view; I had nothing to force through the chairman. But I repeat that if I had something that the chairman was trying to put over me and bury, I think he would find some difficulty, even though I was in a minority. That is the point that explains that we did not have a quarrel that we had to force through. We had a unanimity of opinion that the contract was a good one, that England probably would back out if we still insisted upon competitive bids, although we were all of the view that it was best; so we passed the item in unanimity.

[Mr. C. Fraser Elliott.]

By Mr. Homuth:

Q. What is the date upon which the departmental committee was appointed?

—A. By the order in council which has been read into the record.

Q. Yes. But that is dated when?—A. That is dated the 5th of March, 1937.

Q. And your first meeting of the interdepartmental committee was when?—A. I am sorry I do not remember. It would be on some other contracts.

Mr. MACNEIL: On this contract?

By Mr. Homuth:

Q. I mean on this contract?—A. Oh, it was on the 5th of January, 1938.

Q. But in the meantime these negotiations were all being carried on with regard to the Bren gun?—A. From the evidence subsequent, yes.

By Mr. MacNeil:

Q. Are there not two functions suggested in the order in council for the committee?—A. Yes.

Q. One function being to study and classify from the financial point of view the various requirements of the Department of National Defence and, secondly, to consider non-competitive contracts?

Mr. MCPHEE: Louder.

Mr. MACNEIL: Secondly, to consider non-competitive contracts.

The WITNESS: I think that is right. There are two parts to it. I will explain the first part. To get the real sense of the first part, you have got to go back to the skeleton report.

By Mr. MacNeil:

Q. Yes?—A. Because we were at that time considering ways and means of controlling these profits and preventing undue profits in munitions and war contracts. If you read that report you will find the expression of view that it was very difficult to do, and that probably the best way to do it would be to appoint this committee. In that report that was submitted to council the phrase to which you first referred—"generally to study and classify"—was a phrase that was included, if I remember correctly, in the first skeleton report, if I may call it that, to council. I understand that subsequently that same order-in-council was before the draftsman of this order-in-council of the 5th of March, 1937, and he adopted this language from the language of the Skelton report, and as he says "to study and classify." That is one phase, and non-competitive bids is the other phase. The committee, if it were considered by these words as in duty bound to enter upon concrete study of the probable war contract, did not do it, and furthermore it did not have time to do it, and I rather think that these words are, shall I say, readily or loosely adopted from that preliminary larger study that was made by the Skelton committee.

Q. Are you sure?—A. That is, trying to explain how the words got there; and we did not enter upon a wide-based study of things that might be or generally were before the government.

Q. Now, you have just given evidence that the order in council was passed on the 5th March, 1937. The first meeting of that committee on this contract was held on January 5, 1938?—A. That is correct.

Q. When you met did you not have this cablegram referred to many times, and which you say is the starting point of your consideration, and which is exhibit 182 and reads as follows:—

British government has approved negotiations as to second source supply of Bren guns in Canada. Present proposed expenditure involved to British government is not regarded favourably but War Office is now

ready to negotiate for purchase of five thousand Bren guns manufactured by John Inglis subject to some substantial reduction in cost. Will you arrange for representative to proceed early to this country for negotiations or do you prefer we discuss with Canadian High Commissioner in first instance.

Mr. FACTOR: Sent by whom?

Mr. MACNEIL: D.G.M.P.

The WITNESS: What is the date of that?

By Mr. MacNeil:

Q. Ninth of the eleventh, 1937.—A. Ninth of November, 1937.

Q. Is it fair to state that your committee had no opportunity to consider the negotiations prior to receipt of this cablegram?—A. That is correct.

Q. Did not your committee attempt to exercise the first function to which I have referred, as contained in the order in council? Let me refresh your memory by referring to the minutes.—A. Yes, we did. You do not need to refresh it.

Q. Let me refresh your memory by referring to the second meeting of the committee. It is part of exhibit 63, and reads as follows:—

The members of the committee, except those from this department, saw the proposed agreement after bargaining had taken place. The chairman pointed out that a better procedure might be followed which would give all members of the committee an earlier opportunity to become acquainted with proposals. The committee discussed the desirability of approaching two or three of the best available companies, and carrying them along for a stage, in order that they might submit quotations, rather than to ask the committee to approve of a contract where all the preliminary work had been carried out by one company, the committee thereby being forced into the position of having to approve that particular company's price.

Several members stated that there was a case where in their opinion competitive bidding was highly desirable.

It then goes on to say:—

Considerable discussion took place as to the department's reason for considering only the tender of the John Inglis Company, and the chairman explained that the department had been largely guided by the reaction of the War Office in regard to other Canadian manufacturers, and if the Bren gun was manufactured in Canada by one of the firms mentioned, the War Office might not be prepared to place an order for guns with this firm, and therefore this department would then have to pay much more for guns than is now contemplated.

Then I go on to another paragraph on page 2:

The chairman continued that there was no other firm to his knowledge which the War Office is prepared to do business with, and he impressed the importance of acting along the lines which are agreeable to the War Office, for unless they place an order for 5,000 guns he was not sure that manufacture in Canada would be proceeded with. The John Inglis Company have held up their ordinary commercial operations so that they might set up their plant to manufacture these Bren guns.

The committee therefore had no opportunity to exercise the first function, and by reason of the circumstances abandoned their right to exercise that function after the point was made by the chairman on behalf of the defence

[Mr. C. Fraser Elliott.]

department that the British War Office had picked this one particular firm—I think those were the words used—they had picked the John Inglis Company?—A. Yes, the English had picked that company because they told us they would not contract with anybody else. I would not like to use the word “abandoned” because we came to a conclusion which we thought from the evidence before us was rational, that we should go on with the contract despite the fact that competitive bids were not going to be had, in the circumstances.

Q. You include among these circumstances the fact that you did not have the opportunity to give the advice to the department for a year after preliminary negotiations had been started?—A. That was a necessary circumstance, yes, no doubt about that.

Q. What evidence did you have before the committee that the British War Office would not deal with other manufacturers?—A. Cablegrams.

Mr. McGEER: The report from Colonel Loggie which was on the record.

By Mr. MacNeil:

Q. For what reason?—A. The reason?

Q. What was the reason they would not deal with other established manufacturers?—A. For the reason the cablegram from England said if they had to deal with other manufacturers in Canada the English interest would cease; and the further reason that was explained at the time was that the Enfield plant was making Bren guns, and it was coming towards the end of its own activities in that regard, and you will find in one of Sir Harold Brown's letters that if Canada does not get into production rapidly, when the Enfield plant will have finished, its plant will become idle and the English cabinet impliedly will not give a contract to another country when their own English plant would be idle in that regard. That is in one of Sir Harold Brown's letters.

By Mr. Slaght:

Q. Was it not true that the Birmingham company were also seeking this particular contract from the British War Office?—A. That is too specific. I understand that they were after it. I understand they were after the making of Bren guns. Whether they would infer that or not, that is too specific, I do not know.

By Mr. MacNeil:

Q. The committee recognized the John Inglis Company had been placed in a preferred position. That is a fair interpretation to make?—A. Yes, and that also is in Sir Harold Brown's other cable or letter.

By Mr. McGeer:

Q. Placed in a preferred position by whom?—A. By their own activity in going over there and getting the contract, I take it.

Q. Placed in this preferred position by the British War Office, were not they?

By Mr. Homuth:

Q. Were they not placed in a preferred position by Major Hahn being made a representative of the government and told he could get that information?—A. I can only say when we saw the contract, there is was, and there was the related English contract, therefore it arose. I suggest we get the evidence from those who know.

Q. The committee did not know that?—A. We did not go into that. We studied the contract.

By Mr. MacNeil:

Q. Did the committee study the earlier suggestions or negotiations?—A. If they did, they did not do it as a specific series. We urged no complaint or anything like that.

By Mr. McGeer:

Q. When that question is answered I should like to clean up a point as to whether or not the report had been made by the chairman to the minister and then in turn to the cabinet. I think we are getting away from that point. I think we should clear up that, Mr. Chairman.

Mr. GREEN: Is Mr. MacNeil through with his questions?

Mr. McGEER: I should like to ask Mr. MacNeil to give me the privilege of clearing up that point.

By Mr. MacNeil:

Q. Due to the insistence of the chairman you abandoned your right to exercise that first function?—A. That would not be right, Mr. MacNeil. It was not due to his insistence. I would say his insistence would have little effect, if any, there. What we did recognize was the fact that England said if you do not give this contract now, go into the production of these guns, that is the end of it. That was not the deciding factor in the discussion. The deciding factor was Sir Harold Brown's remarks when he said: it will be fatal if you go into competitive bidding. We believed him.

By Mr. Douglas:

Q. You were not convinced, Mr. Elliott, at that time that is exactly what he meant, because according to your evidence you said you were anxious to send another cable?—A. We were ready to say, does he actually mean what he says. I raised that point myself, because we wanted to get competitive bids along with the English contract, if we could.

Q. There was still an element of uncertainty?—A. Yes. We discussed it, and finally broke up and said, let us go on with the contract.

Q. Because the chairman insisted?—A. No, because the committee agreed.

Q. I will read what Commissioner Davis said at page 41:—

Mr. Elliott said that the committee's suggestion of a further wire gave great concern to the chairman. "He really felt so strongly about it that it amounted to a suggestion that we must not do it. And the committee accepted that."

I am not putting words in the witness' mouth. That is what the witness said before the commissioner.—A. That is his way of expressing his view; others have others.

Q. I am quoting from what the witness said.

Mr. BERCOVITCH: That is the commissioner's way of explaining what Mr. Elliott's answer was. Mr. Elliott had just given his evidence on that point, and I think it is quite clear.

By Mr. Douglas:

Q. I am pointing out what Mr. Elliott is quoted as saying by the commissioner.—A. That is my way of putting my view.

Q. I want to read it again. This is what the commissioner said:—

Mr. Elliott said that the committee's suggestion of a further wire gave great concern to the chairman. "He really felt so strongly about it that it amounted to a suggestion that we must not do it."

By Mr. McGeer:

Q. In the light of the statement, Mr. Elliott, do you still say that the attitude of the Deputy Minister of the Department of National Defence was not the deciding factor?—A. Oh, no; that was his view as a committee member, that is all. It was not a deciding factor; it was the contract with England.

[Mr. C. Fraser Elliott.]

Q. The fact is that a majority of the members of the committee decided that it was not advisable to further communicate with Sir Harold Brown after a full and open discussion of the matter?—A. That is correct.

Q. And the deciding factor was the definite expression of the British War Office that further delay would be fatal?—A. That is right.

Mr. GREEN: After getting a very, very definite cable from the deputy minister of national defence.

Mr. McGEER: I should like, Mr. Chairman, to read this report of the deputy minister to the Hon. Minister of National Defence, which was in turn placed before the cabinet before the contract was signed, with a view to asking Mr. Elliott, after I have completed reading the report, whether or not it is a thorough report of the interdepartmental committee's proceedings, which resulted—

Mr. GREEN: The statement which Mr. McGeer has just made should not be made until it is proved that this is the actual report that was placed before the cabinet.

Mr. DOUGLAS: Have you any evidence that it was placed before the cabinet?

Mr. McGEER: Yes, we will call the minister and the deputy minister to confirm it.

The WITNESS: Before you start that, I have no hesitancy in giving my view of that resume, if the committee desires it. The committee has heard the evidence, and I am just wondering in giving my evidence as such, I repeat, do you want my interpretation of that as opposed to just a witness giving evidence? I am quite willing to interpret it.

Mr. DOUGLAS: I ask if it is fair to any witness to ask him that? There is a committee that sat on the 17th March, which was the last sitting. The chairman writes up a resume of what he thinks to be a fair interpretation of the points of view presented by the respective members. Now we are asking the witness a year later to say whether or not it is a fair report. I submit that is an impossible thing. The only thing we can know is the committee did not see that report, did not concur in the report, and that is a statement of the Deputy Minister of National Defence as his impression of the intent and points of view presented by the respective members of the committee.

Mr. BERCOVITCH: The witness can say.

Mr. DOUGLAS: You are asking the witness if it is a fair statement.

Mr. McGEER: I think you probably misinterpreted me.

Mr. MACNEIL: It is a long statement, and it is now 1 o'clock.

By Mr. McGeer:

Q. You have misinterpreted the situation in this way; I think Mr. Elliott has told us in answer to the important finding of the commissioner that the work of the interdepartmental committee broke down, that the work of the interdepartmental committee did not break down at all, because there was no obligation upon the interdepartmental committee to report other than through the chairman to the minister and to the cabinet council in turn, which is the ordinary procedure, as I understand it, for a report of that kind. Now, if that is correct, and there is a proper report of the proceedings going through these channels as outlined by Mr. Elliott, a member of the committee, then there was no breakdown at all. Now, what I suggest is that that report could be reviewed by a member of the interdepartmental committee. If there is misrepresentation either by omission or inclusion of something that is not fair, then it is within the power of the committee to say. On the other hand, it certainly is of the utmost importance to this committee to know that a fair resume of the important facts

considered by the committee in coming to their final unanimous conclusion of this contract was before the Minister and the Governor in Council, and I propose at the next meeting to deal with that. In the meantime, Mr. Elliott, I would suggest that you read over that report.—A. What is the number?

Q. Exhibit No. 244. There is another matter which I should like to mention before we close, Mr. Chairman, and that is on the question of whether or not the government could have gone on. I should like to put this evidence on the record. It is exhibit 63, the second page of a minute of the interdepartmental committee:—

It was asked of the chairman if, in making preliminary investigations, it was essential that a representative of some firm go over to England, or did the department itself send a man over to get information, specimens, etc., necessary for the making of guns. The chairman replied that the department could have set up its own plant but was not prepared to spend the money. The department was careful about increasing the number of manufacturing establishments under its control as there were disadvantages in doing so. He told the committee that Major Hahn went over to England, got all the particulars and then made his quotation. He explained also that a departmental officer in England took a special course in the manufacture of these guns, and that this officer was now in Canada. The chairman contended that there was no other firm to his knowledge with which the war office is prepared to do business, and he impressed the importance of acting along the lines which are agreeable to the war office for unless they place an order for 5,000 guns he was not sure that manufacture in Canada would be proceeded with.

A. What exhibit is that?

Q. That is exhibit 63, a minute of the interdepartmental committee meeting of January 24.

By Mr. MacNeil:

Q. Did you not raise the point at the first meeting, as reported in the minutes, Exhibit 63, that some members of the committee pointed out that if a representative of the Inglis company proceeded to England to consult the war office in regard to their order for 5,000 guns, such representative should not be in a position to say that the Canadian government was ready and willing to enter into the contract in the present form for 7,000 guns? Is that not correct?

Mr. GREEN: This is all argument, really?

Mr. McGEER: This is very pertinent to what we are doing, and I want this cited.

Mr. HOMUTH: It just goes to prove more pressure, that is all.

By Mr. McGeer:

Q. The further statement was made by the chairman of the interdepartmental committee that no contract will be entered into until the war office has scrutinized its terms?—A. I remember that.

Q. And there was no question about the contract that was entered into by the Department of National Defence being accepted without the approval of the British war office?—A. That is correct.

The CHAIRMAN: Gentlemen, I think we should adjourn until to-morrow morning at 11 o'clock.

Mr. McGEER: I have to attend the Banking and Commerce committee to-morrow morning.

[Mr. C. Fraser Elliott.]

Mr. MCPHEE: I have another committee to attend to-morrow morning also, Mr. Chairman.

Mr. DOUGLAS: We have got to sit more often or we will not be through.

The CHAIRMAN: I think we should sit to-morrow morning.

Mr. McGEER: I cannot sit to-morrow morning.

Mr. GREEN: Mr. Chairman, we simply cannot get this thing threshed out if we are not going to sit more than twice a week. I suggest we should sit to-morrow morning and go ahead with our evidence.

Mr. DOUGLAS: The agricultural committee, an important committee, is sitting every morning this week except Monday, I think.

The CHAIRMAN: If you will leave to the call of the chair we shall try to arrange to call a meeting to-morrow morning.

Mr. MACNEIL: You will send us notice?

The CHAIRMAN: Yes.

(At 1.05 p.m. the committee adjourned to meet again at the call of the chair.)

Dr. Doc
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on

Canada. Public Account; Standing Committee

SESSION 1939
(HOUSE OF COMMONS)

(STANDING COMMITTEE)

ON

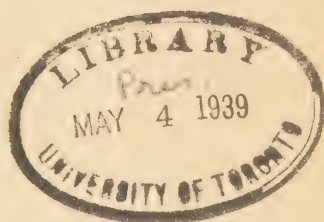
(PUBLIC ACCOUNTS)

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 12



Friday, April 28, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, April 28, 1939.

The Standing Committee on Public Accounts met at 10.30 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Beaubien, Bercovitch, Blanchette, Brooks, Douglas (*Weyburn*), Factor, Ferland, Fleming, Fraser, Glen, Golding, Green, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Patterson, Purdy, Rickard, Stewart, Stirling, Thauvette, Tremblay.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance.

Examination of Mr. Elliott was continued.

The Committee adjourned until Tuesday, May 2, at 11 o'clock, a.m.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

April 28, 1939.

The Standing Committee on Public Accounts met at 10.30 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, I think we at least should express the appreciation of the chair with regard to the large number of members here present and for their punctuality at this early meeting. Our witness, Mr. Fraser Elliott, is here, so we will proceed with him; unless someone has something else he would like to bring forward.

C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, Department of National Revenue, recalled:

Mr. McGEER: What is the number of the exhibit we were examining last night, was it No. 244?

The WITNESS: Yes, it was No. 244.

Mr. McGEER: At the close of the session yesterday, I suggested, Mr. Chairman, that I would like to go over the report made by the deputy minister to the Hon. the Minister of National Defence. While I agree that in view of the confusion that exists as to the form in which this was sent the matter will be confirmed by the deputy minister when he is on the stand. He will probably have the original document before him. I think, subject to that being submitted at a later date, we can proceed now with this witness as far as he knows anything about it.

Mr. GREEN: There is only one thing about it, this report covers a great deal of ground work of the interdepartmental committee. I think perhaps it will be well to confine the question to that part of it that deals with the committee.

Mr. McGEER: I will do that.

The CHAIRMAN: How many pages are there in that report

Mr. GREEN: There are several reports. I think the one Mr. McGeer is on now covers three or four pages.

Mr. McGEER: This exhibit No. 244 has only four pages in it.

Mr. GREEN: There are two reports under that exhibit number.

Mr. McGEER: The one I am dealing with is the one that has the particular issues in it that we had up for consideration last day.

Hon. Mr. STIRLING: What is the date of it?

Mr. McGEER: The date is March 21st, 1938. It is addressed to the Hon. the Minister of National Defence and marked confidential. If you would just follow this report with me, Mr. Elliott.

As desired by you, a report on the Bren light machine gun question is respectfully submitted:—

As far back as the summer of 1936, the Department of National Defence came to the conclusion that it would be necessary to arm the forces with the Bren gun and that 7,000 of these guns would be required. A few model or specimen guns were ordered and it early became clear that Canada could not look to the manufacturing establishment of the government of the United Kingdom as a certain or timely source of

supply reasonably safe from possible enemy action. The two model guns which we now have were not made in England but in Czechoslovakia where they were invented; the Enfield plant near London cannot satisfy the United Kingdom government's requirements before several years. You will not want me to go too deeply into the difficulties which have been encountered in this connection by Great Britain, but the fact that the United Kingdom is not only willing but anxious to order 5,000 Bren guns from Canadian manufacturers is of utmost significance. Direct advice to this effect, with corroboration from our Royal Canadian Ordnance Corps Officers stationed at Canada House, London, has been received, also similar advice to the effect that the treasury in London has approved the War Office proposal.

Mr. GREEN: Mr. Chairman, at that point; this is the part I referred to which goes away back to a year and a half prior to the work of the interdepartmental committee.

The CHAIRMAN: Mr. Green, I cannot see any objection in view of the fact that this letter was written at the time it was, after the interdepartmental committee had made its report and finished its work. It seems to me that you have a general report on the whole thing there.

Mr. GREEN: I do not care particularly; it is very long and it simply means taking up a lot of time.

Mr. McGEER: I would have had another page read if you had kept still.

Mr. GREEN: Oh, no you would not.

Mr. McGEER: Part of it anyway.

Mr. MCPHEE: This is interesting, let us have the whole thing. I think we should consider it from the first and get the whole thing before us.

Mr. McGEER: I think we should also. There is nothing here that can be objected to, in my opinion, so I will start again.

As desired by you, a report of the Bren light machine gun question is respectfully submitted:—

As far back as the summer of 1936, the Department of National Defence came to the conclusion that it would be necessary to arm the forces with the Bren gun and that 7,000 of these guns would be required. A few model or specimen Bren guns were ordered and it early became clear that Canada could not look to the manufacturing establishment of the government of the United Kingdom as a certain or timely source of supply reasonably safe from possible enemy action. The two model guns which we now have were not made in England but in Czechoslovakia where they were invented; the Enfield plant near London cannot satisfy the United Kingdom government's requirements before several years. You will not want me to go too deeply into the difficulties which have been encountered in this connection by Great Britain, but the fact that the United Kingdom is not only willing but anxious to order 5,000 Bren guns from Canadian manufacturer is of utmost significance. Direct advice to this effect, with corroboration from our Royal Canadian Ordnance Corps Officer stationed at Canada House, London, has been received, also similar advice to the effect that the treasury in London has approved the war office proposal.

In view of the present situation, as mentioned in the next preceding paragraph, which although anticipated here long ago, materialized slowly and after long and unexpected delays, it was deemed advisable, even in 1936, to consider the possible necessity of having

our requirements manufactured in Canada. The probable difficulties of the position of the United Kingdom were surmised here from the beginning. Because of known variations in cost factors (labour, for instance), heavy outlays for machinery, etc., that would be required if the guns were to be manufactured in Canada, it was known that Canadian production costs would be much more than the English production cost, if only 7,000 guns were to be made in Canada, it was believed that the cost would be prohibitive under normal conditions. Such has turned out to be the case, to the extent that the placing of the 5,000 order in Canada will save something more than \$1,000,000 in cash to Canadian tax payers. It is impossible to translate into dollars the other advantages to Canada whether financial, or, very important, the extending of our means of defence.

Perhaps to mention one other advantage will suffice, i.e., that we will get the guns more quickly than would otherwise be possible; there will remain in Canada the plant and acquired skill in the production of this weapon.

When the matter was first considered, it was not then believed that there would be long delay in receiving favourable or at least definite advice regarding the placing of an order by the government of the United Kingdom, the advisability of having the guns produced in a dominion arsenal, by private industry following invitation to tender or by a selected manufacturer who would produce the guns under the close financial and technical supervision of the Department of National Defence, on a cost plus basis, was carefully considered. The latter method was chosen as the one which would bring quickest results, would be the most economical, would most easily permit of termination of activity, and would be one which would commend itself to the war office.

It is the practice in England to select the contractor when, as in the case of the Bren gun and many other articles required for defence purposes, to have the contractor proceed on a cost plus basis. This, when it is not possible to say what a fair and reasonable firm price is. This procedure permits sound planning against an emergency or war. In the case now under discussion, the president of Messrs. John Inglis Company Limited, Toronto, Ontario, James E. Hahn (Major, D.S.O., M.C., Canadian Expeditionary Force) called at the war office in October or November, 1936, and undoubtedly created a most favourable impression there and with the technical officers of the Enfield Plant, with the result that of a number of Canadians who have displayed an interest in armaments, Major Hahn is one of the few who has proven satisfactory to the war office if an offer of a contract is to be taken as the indication. The prospective contractors were equally acceptable to the department and their continued interest in the matter, despite delays vexatious to all concerned, was reassuring.

It may be added that Major Hahn has visited England several times and has acquired a great deal of extremely valuable information concerning the manufacture of the Bren gun. The departmental proposal was brought before the interdepartmental committee on the control of profits on government armament contracts and there given minute attention which has resulted in a draft agreement which would limit the financial returns to the company to an extent greater than the agreement which has been found acceptable by both the war office and the treasury people of the government of the United Kingdom.

The Department of National Defence has spared no effort to acquaint the members of the interdepartmental committee with all possible facts and information concerning the proposed agreement. The members of the committee, including a sub-committee, individually and collectively, have been extremely painstaking and cautious in their approach to the subject. Some members insisted that a cost plus contract be submitted to tender by selected Canadian firms. It being the expressed wish of a minority of the members, this was referred to the war office officials with the result that they nearly dropped the matter. It has been arranged through proper channels that the Department of National Defence Ordnance Office in London, as an observer, attend the discussions on this particular point. All reports were painfully to the effect that if such action were taken it would mean the immediate and complete loss of interest on the part of the war office. Whatever the reasons for delay in arriving at a decision up to a short while ago, London evidently cannot or will not place an order in Canada unless it can do so immediately. All concerned in the department here, including myself, quite understand and agree with war office officials; the members of the interdepartmental committee who desired that the point be referred to London accepted the war office decision when the committee again took up the details of the proposed agreement.

The last meeting of the committee was held on March 17, 1938, when all remaining clauses of the proposal were passed. Major Hahn was called into the discussion during the latter part of the deliberations.

The principal features of the proposed contract, as passed by the interdepartmental committee, and recommended to you by me, are:—

The contractor to manufacture in Canada 7,000 Bren light machine guns and parts, as ordered by national defence according to available funds.

Contractor to have ten-year non-exclusive licence. (This is effectively controllable by national defence through war office, and is subject to cancellation for cause, including increase of company's capitalization without consent of department). Licence renewable by mutual agreement.

Machinery, gauges, etc., required for manufacture to be provided by national defence contractor being repaid actual cost, not exceeding \$20,000, of preliminary investigation, planning and installation services which it performs. Contractor to be repaid other costs necessarily incurred by it during pre-production period, plus 10 per cent profit thereon, except on cost of machinery. National Defence responsible to contractor for eight-twelfths of costs, including profit incurred during pre-production period, remaining four-twelfths assumed by war office, but all machinery, tooling, etc., to be the property of National Defence.

In respect of manufacture of guns, price payable to contractor is actual cost of manufacture as itemized in contract, and as approved by National Defence, plus 10 per cent on such cost except on sales tax, royalties, customs duties, interest on bank loans and depreciation.

The total amount of profit in respect of cost of manufacture, pre-production period, and the fees payable for preliminary services is not to exceed \$267,000. Provision for monthly progress payments of 90 per cent of manufacturing costs, and 75 per cent of the 10 per

cent profit allowable, adjustments being made between contractor and department upon delivery and final acceptance of "lots" of guns as delivered, and upon final completion of contract.

Provision for fixing a standard cost (i.e., manufacturing cost, exclusive of profit), within ninety days after date of attainment of full production, said date to be at discretion of National Defence, and if standard cost is fixed profits to be adjusted if it exceeds manufacturing cost or vice versa.

Provision for adequate accounting by contractor and check by National Defence, safeguards of Crown's interest should plant, material, etc., be made subject to mortgage, lien, or other incumbrance; for National Defence taking over plant or cancelling contract in the event of contractor becoming insolvent or incurring excessive costs, unreasonable delay or otherwise failing properly to fulfil its obligations.

If contract wholly or partially cancelled by National Defence, otherwise than through delay or default or incurring of excessive costs by contractor, contractor to be reimbursed for all work done including commitments and obligations up to date of cancellation. If said cancellation is prior to commencement of production, contractor will in addition to repayment of actual costs as mentioned above be paid \$43,750, and if cancellation effected after commencement of production, said \$43,750 is to be reduced by an amount which bears the same ratio thereto as the total amount of profit actually paid or due the contractor bears to the maximum over-riding profit of \$267,000.

Provision for insurance, inspection and policing of plant if required by National Defence.

That was signed by the Deputy Minister of National Defence and chairman of the interdepartmental committee. I understood you to say the other day, Mr. Elliott, that in matters of this kind the normal procedure would be for the chairman of the committee to report to the department interested?—A. That is correct.

Q. And that the minister responsible for the administration of that department would in turn report the matter to the Governor in Council?—A. That is right.

Q. In this case the deputy minister of the department concerned, that is, the Department of National Defence, happened to be the chairman of the interdepartmental committee?—A. That is right.

Q. And he in turn was the one to report to the minister of his department?—A. That is correct.

Q. And he did make that report?—A. According to the document before us.

Q. You have heard the report read?—A. Yes.

Q. Are there any matters that you can think of that should have been included in that report which are not included?—A. Not at the moment, no.

Q. Well, from your memory of the proceedings of the interdepartmental committee is that a fair report of what took place?—A. Well, I think to answer that would call for a comment on the report and not the brief replies I have given. You will observe, Mr. Chairman, that this is a report from the point of view of a member of the committee which falls really into two parts. First the historical data, that is given by the deputy minister speaking more as deputy minister, presumably. He says, as far back as sometime in 1936 the Department of National Defence came to the conclusion it was necessary to arm the forces of Canada with the Bren gun, and so forth. Now, the historical part of that report was also given to us in our first meeting of the interdepartmental committee, when we first gathered in meeting, having the contract with

us. We were asked whether or not we wanted to hear the very historical background that is here given, and we heard it. That included the first part of this report that has just been read. And I state that it represents very substantially what the committee itself heard in its first meeting. Then, the second part of the report just read falls into two parts itself; the first part is again recently historical, namely, the chairman of the interdepartmental committee is reciting some of the activities of the interdepartmental committee and what was discussed. There again he is substantially reflecting what took place, and I would say that that is reasonably complete. I cannot think of anything at the moment that is left out, but out of an abundance of caution I go no further than to say it is reasonably complete, and I think it is very well done. Then the (b) part of the second part of this document relates to the terms of the contract and recites substantially what they contain; and again I think as a resume of the contract it is reasonably accurate. So, except for these historical parts of which I have not, and no one on the committee has, as a member of the committee, personal knowledge, I can only state that what is here found was stated to us; and, as to the resume of the activities of the committee, it is reasonably good; and as to the resume of the terms of the contract I think different members know enough to join with me in saying that also is reasonably complete.

Mr. GREEN: Mr. Chairman, might I ask—

Mr. McGEER: Would you let me complete this? Then you can examine as much as you like afterwards. I would like to clear this point up which I brought forward at our last meeting. Then, may I suggest, you may proceed with your further examination. What I am concerned about at the moment, Mr. Chairman, is the finding of the commissioner that there was a breakdown in the working of the interdepartmental committee.

Mr. MacNEIL: The system of supervision.

Mr. McGEER: We might get the exact thing—

Mr. FACTOR: That is what the commissioner says; at page 41 of his report—the system broke down.

Mr. DOUGLAS: That does not suggest any blame at all attaching to the committee.

Mr. McGEER: That is one thing I want to clear up, whether there is any blame to anyone else.

Mr. MacNEIL: I think that should be made clear; we are not putting any blame on the interdepartmental committee.

Mr. FACTOR: Mr. Elliott has already placed in evidence that the committee did not break down.

Mr. McGEER: Just a moment, we better stick to the finding of the commissioner, because we are dealing with a specific finding. He says, "the system broke down when the committee failed to report back to the body that had created it."

Mr. MacNEIL: That is right.

Mr. McGEER: Now, Mr. Chairman, with all due deference to my friends, I think that such a thing is fairly clear, that the blame is placed definitely on the interdepartmental committee for the breakdown of the system, and the finding is by inference that they should have reported to the body that appointed them, namely, the Governor in Council. And now, I do not wish to quarrel with the findings of the commissioner, but what I do think, in the light of what Mr. Elliott has told us, is that we should be able to ascertain whether the committee did report in the proper way to the Governor in Council all of the pertinent facts before the contract was signed; and that is the issue here.

[Mr. C. Fraser Elliott.]

By Mr. McGeer:

Q. Mr. Elliott, there was nothing to prevent your committee if it so desired from bringing any matter to the attention of the Governor in Council which you thought should be brought to his attention, was there?—A. There was nothing to prevent our committee—the action to bring anything before the Governor in Council would have been very simple if anyone in the committee felt it was necessary to bring something which might develop before the Governor in Council. That simple action would have been to express his views in meeting and make a request that they be noted by the chairman for the purpose of having them transmitted through the proper channels to the Governor in Council.

Q. Yes, and at the completion of your final meetings, as among the members of the interdepartmental committee, including the chairman who was the Deputy Minister of National Defence, there was unanimity of opinion, was there not?—A. Oh, yes.

Q. And there was really nothing to report?—A. There was not, other than the approved contract itself.

Q. There was nothing to report in so far as any member of the interdepartmental committee was concerned, other than the routine report which was made by the chairman to the department and then through the head of that department to the Governor in Council?—A. That is right.

Q. Under this system—and I speak of the system which involved the advisory assistance of the interdepartmental committee—the normal procedure of reporting to the Governor in Council was carried out; is that correct?—A. That is correct; particularly, in the light of the report which we have just read.

Q. So that there was no breakdown on the part of the system, and no failure on the part of the interdepartmental committee to report?—A. Certainly not that I am aware of.

Mr. GREEN: Are you through, Mr. McGeer?

Mr. McGEER: Just a second. There was just one other matter, if I might. I have before me here exhibit No. 105, Mr. Green; it goes with this report, and I had intended to introduce it before. You remember, of course, reference to the discussion of the problem of getting the Bren gun from other sources than Canadian production which was referred to as having taken place in the interdepartmental committee?

The WITNESS: That was mentioned, the possibility of getting it from England.

By Mr. McGeer:

Q. Yes; and also the early stages of the negotiation with the British government with regard to that are right; that is, an increase in the number that might be produced in Canada. Do you remember anything of that?—A. That was outlined to us, as I said a little while ago, in the first meeting we had.

Mr. GREEN: Mr. Chairman, this is really a matter for a defence official, it is not a matter for this witness.

Mr. McGEER: No, no, no; it is. Why not? It was before the interdepartmental committee. I would like to read this exhibit No. 105, because it was before the interdepartmental committee and I want to ask a question about it.

Mr. GREEN: That is an entirely different report and I wanted to deal with the one we are now on.

Mr. McGEER: No, it has to do with this section of the report: "In view of the present situation, as mentioned in the next preceding paragraph, which although anticipated here long ago, materialized slowly and after long and unexpected delays, it was deemed advisable even in 1936, to consider the possible necessity of having our requirements manufactured in Canada."

Mr. GREEN: Mr. Chairman, we are not dealing with the reports of the interdepartmental committee. I only asked that when Mr. McGeer finished his questioning I might be permitted to proceed with mine.

Mr. McGEER: I just want to read this telegram, because, as I said, it simply elaborates that particular point.

Mr. GREEN: I object to proceeding in this way, going back now to 1936 and dragging in a telegram that Mr. Elliott had nothing whatever to do with. It is not fair to do that at this stage, Mr. McGeer can do that when we have cleared up the point we have before us. The point he is going on to now is an entirely different question, it deals with the report from the Deputy Minister of National Defence.

Mr. McGEER: If you will follow the report I have just read; "In view of the present situation, as mentioned in the next preceding paragraph, which although anticipated here long ago, materialized slowly and after long and unexpected delays, it was deemed advisable, even in 1936, to consider the possibility of having our requirements manufactured in Canada." Now, it is in connection with that particular part of the report which deals with 1936 that this exhibit which I now read has to do. As I say, had I not overlooked it, it would have been in before.

Mr. GREEN: That opens up an entirely different subject, and I do not know why it should be dragged in. It only serves to confuse the story on the record of the committee's proceedings.

Mr. McGEER: We may have differences of opinion about that; I think it clarifies it.

Mr. GREEN: It has nothing to do with the interdepartmental committee at all.

The CHAIRMAN: Why can there be any particular objection to the reading of that telegram? I do not see anything objectionable in the telegram, it is short.

Mr. McGEER: If we are going to read it, let us read it.

Mr. GREEN: Read it if you like, I object to having it put in.

The CHAIRMAN: It will not take a great deal of time.

Mr. McGEER: I am referring now to exhibit No. 105:

Cable.

LONDON, Dec. 17, 1936.

Your telegram 294 November 7th war office state present situation is that whole capacity royal small arms factory which at present is only source of supply apart from Czecho-Slovakia will be fully occupied with war department requirements until March 31, 1939. If demand of size envisaged were received from Canada for delivery before March 31, 1939, this would necessitate purchase from Czecho-Slovakia or creation of another source of supply for their own requirements and their decision in this matter would be influenced by whether or not Canadian government decides to place order in this country. If second source of supply created delivery might be made shortly before autumn 1938. War department requirements are now covered by existing arrangements for manufacture here.

Now, the point that I want to make clear is supplementary to this report, and it was that apparently at the end of 1936 the Dominion High Commissioner in London had advised the department of defence that the war department's requirements were then fully covered.

The WITNESS: That is, according to this telegram you have just read.

[Mr. C. Fraser Elliott.]

By Mr. McGeer:

Q. So apparently there was at that time at least no indication that a contract for any guns would be let by the British War Office in Canada?—A. Of course, my answer to that is probably no better than anybody else's; but if you require an answer, that would be indicative from this telegram.

By Mr. Green:

Q. Was that wire before you?—A. The first time I ever saw that wire is now.

Q. You knew nothing about it?—A. Nothing at all.

By Mr. McGeer:

Q. Did you get that information from the Deputy Minister of National Defence?—A. Oh, the general character of the information in a way is also in the minutes of the first meeting of the interdepartmental committee; at least, if it is not there it ought to be there; and next, it is more or less referred to in the report to council that we read this morning, in the opening part. The tenor of what is in that also ran in the other.

By Mr. Green:

Q. Mr. Elliott, referring to the finding of the commissioner at page 41 with regard to the system breaking down, I think that that might be taken as meaning in essence that the cabinet did not know what had been the opinion of the interdepartmental committee, did not know the full opinion. Now, first of all, did your committee go into the question as to whether or not these guns should be manufactured in a Dominion arsenal?—A. No, that was mentioned as a subject of discussion, but what we really went into was first the contract and secondly the possibility of getting the English contract along with competitive bids; and in getting to that we mentioned en passant the possibility of manufacturing in Dominion arsenals.

Q. The question of manufacture in Dominion arsenals were merely mentioned en passant, it was not considered in detail?—A. No, no; we did not make a study of it.

Q. I see, because—I wish to refer to exhibit No. 243, which is a report to the Minister of National Defence dated on the same day as exhibit No. 244 which Mr. McGeer has just read, and it is addressed to the Hon. the Minister and reads as follows: "The Interdepartmental Committee on the Control of Profits on government armament contracts have, during the last three months, at numerous meetings, considered in minutest detail all the aspects and factors leading up to the manufacture in Canada of Bren guns including the various methods possible, which, with their advantages and disadvantages were fully weighed." You only had four meetings, did you not?—A. Well, that depends on what you mean by "meetings." I think that was all we had as a committee, but there were meetings of sub-committees. When you say there were only four meetings, there were sub-committee meetings as well, which possibly should be considered as a part.

The CHAIRMAN: Order, gentlemen; let Mr. Green proceed.

By Mr. Green:

Q. I will start over again. "The Interdepartmental Committee on the Control of Profits on government armament contracts has, during the last three months, at numerous meetings"—as I said, there were only four meetings of the interdepartmental committee, were there not?—A. That is correct.

Q. —"Considered in minutest detail all the aspects and factors leading to the manufacture in Canada of Bren guns including the various methods possible which, with their advantages and disadvantages were fully weighed. In view

of the experience of the war office in these matters and the position it took, the committee reached the conclusion that the placing of a contract on a cost plus basis with a selected firm whose capabilities in the opinion of the war office and of the department are satisfactory, was the most practical course of action to be adopted in the circumstances.

The draft contract now before Privy Council represents the views expressed by the committee which considered it clause by clause in meticulous detail. The committee, after exhaustive examination of the financial aspects as reflected in the draft unanimously expressed the opinion that they are fair and reasonable?"—A. This particular report—answering your question—where it refers to, "the advantages and disadvantages were fully weighed," readily conveys to my mind, and this is the first time I have seen this report, that all the possibilities in every direction were exhausted; and if that be the meaning of it I think it is excessive; but I rather think that the words used really convey an impression of the amount of consideration that we gave to the matter, and that we were fully aware of the contractual relations with England of this company and its advantages to us, when we say that even competitive bids unless we had that contract could not give us a greater advantage than the contract and the John Inglis activities. Therefore this in the result states that even a casual consideration of the manufacture of guns in other direction in view of the circumstances, and that is what the paragraph of this report ends with, in view of the circumstances of the competitive bids; without the contract was Canada—making guns in its own arsenal was not as good as the proposition before us, so we did not go into the weighing of all other possibilities and their advantages and disadvantages as against other methods, because always there was this contract that was so advantageous to us that it out-weighed all other considerations.

Q. What I want to get at is this: Here is the minister who got this report from his deputy, and from that report the minister might take it that the committee had investigated fully the possibilities of the manufacture of the guns in our own Dominion arsenals; apparently you did not weigh that proposition at all?—A. I said, Mr. Green, that that is a possible conclusion to which the minister might come. I am only giving evidence as to my opinion as to how these words may be construed, and how these words can be harmonized with what we actually did. I opened up my remarks by saying that there was the possibility of two meanings, one of which might be as you state.

By Mr. MacNeil:

Q. Did the committee at any time explore the possibilities of getting the same saving made in this contract by public manufacture in any plants owned and operated by the government?—A. We explored the possibilities of sending a telegram that we discussed at length at the last meeting.

Q. Relating to competitive tenders?—A. Yes, and we got that rather remarkable reply.

Q. And you made no inquiry as to whether some saving might not have been effected in public manufacture?—A. I would not have to inquire, because it was there already before you—sufficient information.

Mr. GREEN: Now, Mr. Chairman, if I might go ahead.

Mr. MCPHEE: Before you leave that report—

Mr. GREEN: What I have to say follows along the same line.

Mr. MCPHEE: Before you leave that report I want to ask the witness a question; were any of the subcommittee meetings reported to the interdepartmental committee?

The WITNESS: Yes.

[Mr. C. Fraser Elliott.]

By Mr. McPhee:

Q. Well, how many?—A. Two. Just a minute now, I am speaking about the subcommittee here. Dr. Eaton, who functioned on that subcommittee tells me that they met on several days but they only made two reports.

Mr. MCPHEE: So that clears up the point in that report, about the numerous meetings.

Mr. DOUGLAS: It does not clear up anything.

Mr. GREEN: There were only four meetings of the interdepartmental committee. And now, Mr. Chairman, if I have the floor?

The CHAIRMAN: Go ahead.

Mr. GREEN: The report Mr. McGeer read to you, exhibit No. 244 of the subcommittee, set out that some members insisted that a cost plus contract be submitted to tender by selected Canadian firms. Now, would you refer to exhibit No. 245? I would just like to have you consider in what shape this report by the deputy minister landed up in the cabinet as a report from the minister. You will notice that this report from the Minister of National Defence is dated March 17, 1938, and it is addressed to His Excellency the Governor General in Council. I will read the report.

The WITNESS: Just a minute, Mr. Green, it is addressed, isn't it, to Mr. E. J. Lemaire, Clerk of the Privy Council?

Mr. GREEN: It is the report attached to that.

The WITNESS: Yes, I am with you now.

Mr. GREEN: "To His Excellency the Governor General in Council: The undersigned has the honour to report that a new type of light machine gun, known as the Bren gun—"

Mr. McGEER: Mr. Chairman, I wish to raise an objection.

Mr. GREEN: I thought you would.

Mr. McGEER: Yes, I want to point out that the report to which I referred was dated the 21st of March, 1938, and the question which has just been raised directs itself to a report dated March 17. Now, I certainly object to a report to the Governor in Council dated March 17 being used as an indication of how a report dated March 21, four days later, was referred to the Governor in Council.

Mr. GREEN: If Mr. McGeer will allow me to finish I think he will see that I am not trying to slip anything over on him.

Mr. McGEER: You made that statement.

Mr. GREEN: I said myself it was dated March 17. Mr. Chairman, the whole point is what did the cabinet find out from the Department of National Defence; and that is what I propose to put on the record.

Mr. McGEER: Then, Mr. Chairman, the proper official to examine in regard to that is the minister who made the report, and unless he can show that this witness knew what went before the Governor in Council the questioning on the report is out of order.

Mr. GREEN: What is sauce for the goose is sauce for the gander.

Mr. MacNEIL: Hear, hear.

Mr. GREEN: Mr. McGeer has just read the report of the deputy minister.

Mr. McGEER: It was known to the deputy minister and to the chairman of the interdepartmental committee. Now, if you will just keep still for a minute.

Mr. GREEN: You read it to Mr. Elliott and asked him questions about it. I am doing the same thing about the report of the minister to council.

Mr. DOUGLAS: Does it refer to the work of the interdepartmental committee?

The CHAIRMAN: Let the chair have a word in this exchange.

Mr. FACTOR: I want to interject to state that I do not think one member of this committee has any right to tell another member of the committee to keep still, or to keep quiet.

Mr. DOUGLAS: You should have made that interjection yesterday.

Mr. FACTOR: I did.

The CHAIRMAN: Let us see if we can figure it out this way; someone says that counsel for the government says something; and then somebody says that the prosecuting attorney says something; now, let the judge say something for a minute. The hon. member had all the chance in the world to read that evidence into the record and I can't understand why there should be any objection to Mr. Green reading his reference, it is in the exhibits of evidence, and getting it into the record. Let us get on with the job.

Mr. McGEER: Let us get on with the job properly. When questions are asked improperly they should not be allowed to go unchallenged. A record of this kind is not something to be treated lightly, and we are having a record which is going to fulfill the responsibility of this committee's work of justifying the confidence of this parliament and of the people of Canada in our Department of National Defence. The Department of National Defence has been subjected to the most definite and positive charges of incompetence and inefficiency; and considerably more than that; and I can conceive of no higher duty of any group of men in the public service of the Dominion of Canada than completing in a proper and in an effective way the work of this all important investigation. I have no objection to Mr. Green asking that. He read a statement that was made to the minister, or to the Governor in Council, dealing with the work of the interdepartmental committee with a view to ascertaining whether that was a correct statement or not.

I prefaced my reading of the report of the deputy minister to the minister with a statement that I wished to ask Mr. Elliott whether or not that was a correct resume of the work of his committee.

Mr. GREEN: And I want to ask him a question about this report.

Mr. DOUGLAS: Mr. Chairman, you have given a ruling.

The CHAIRMAN: I feel that the remarks of the honourable member who has just spoken and registered his objection require one or two words of comment. No one realizes more than I realize the importance of this committee.

Mr. DOUGLAS: Hear, hear.

The CHAIRMAN: And the responsibility of the committee individually and collectively. I think that is abundantly apparent to each and every one of us. I sometimes think that perhaps temporarily some of the members drift away from that thought. On the other hand, I quite concur in what the honourable member has just said. He has had an opportunity of stating his objection; it is on the record. My point a few moments ago was that if one member of the committee is going to be permitted to read any exhibit, quite right. The honourable member has every right to object. But it is part of the record now, and I cannot really see why there should be any objection to his reading it.

Mr. MCPHEE: Mr. Chairman, if the witness has any knowledge of the report which Mr. Green is about to read then it is all right, but the witness must be shown the report first.

Mr. GREEN: Exactly the same thing applied to the other report. The witness said he had never seen or heard of General LaFleche's report to Mr. Mackenzie. This is exactly the same. Why should the government members try to choke me off when I try to finish out the picture?

The CHAIRMAN: May I say to my honourable friend I am going to see that nobody chokes him off.

[Mr. C. Fraser Elliott.]

In answer to my friend, the honourable member for Yorkton, I would say, let the honourable member read the exhibit he has in mind and the witness will then say whether he has any knowledge of it or not.

Mr. MCPHEE: Then it is on the record.

Mr. McGEER: You apparently have not got the point of the objection. The report that I examined on was a report of the chairman of the interdepartmental committee of which this witness was a member. Now, the report that Mr. Green proposes to examine this witness on is a report of the minister to His Excellency the Governor in Council.

The CHAIRMAN: Yes.

Mr. McGEER: This witness, with all due deference, in his position as a civil servant has not the freedom of criticism of a report of a minister to the Governor in Council. And unless it can be established that he as a witness has some knowledge of why the minister wrote this report, some knowledge of the report itself, some knowledge of even the background of the report, then this witness should not be asked to comment upon it. This witness does not purport to know what goes on between the officials of the Department of National Defence and the Minister of National Defence. With all due deference to Mr. Green I do submit in all reason that when you examine a witness on a report, by the chairman of a committee of which he was a member, that is one thing and a very proper thing to examine on; but when you say that that is a precedent for examining this witness on any report made by any group or any individual, whether he has knowledge of it or not, is a precedent which I have never heard of before. There are certain grounds upon which a witness may be examined. Those grounds must be that he has knowledge of the thing that he is being examined upon. How can this witness discuss intelligently before this committee the report of the Minister of National Defence to the Governor in Council? The proper person to be examined upon that report is the man who made it or the individual who supplied the information on which it was based. When you say that I, because I examined this witness on the report which was a report of his work, as a member of the committee—

Mr. GREEN: Mr. McGeer, it is too bad you did not make this argument before you started in to read the document. Mr. McGeer read a report of which a very small part dealt with the work of the interdepartmental committee. Some of it did and we allowed him to go on. The report I am going to read also deals with the interdepartmental committee, and I cannot for the life of me see the difference between the two cases. He read from a report from the deputy minister to the minister, of which Mr. Elliott knew nothing, and I am reading a report from the minister to the Governor in Council, and I think it is only fair that the whole picture should be allowed to go on. If I am refused permission to put in the whole story it would certainly amount to blocking tactics, and, so far, no one has resorted to such tactics in this committee.

Mr. BERCOVITCH: That is not the point, Mr. Chairman. The point is this, at least as I understand it: Has this witness personal knowledge of the contents of the report?

Mr. GREEN: He had no personal knowledge of the contents of the other report.

Mr. BERCOVITCH: I do not admit that, but, assuming that he had no personal knowledge of what he was speaking to a moment ago in answer to Mr. McGeer, two wrongs do not make a right.

If we start out with the objection made by Mr. McGeer as to whether he should testify before he is examined as to his personal knowledge of the document or report in question, I think if he has personal knowledge the report is admissible. If, on the other hand, he has no personal knowledge of it, it is absolutely illegal, to put it mildly, to examine him upon that document. I think

it would be unfair to the witness and to this committee to have the witness speak to something that is going into the record of which he probably has some hearsay knowledge. The point is, as I understand it, and I am sure my friends will correct me if I am wrong, whether or not the witness has personal knowledge of the contents of that report, and I say that is a preliminary question which should be put to the witness before proceeding further.

Some Hon. MEMBER: It did not occur to government counsel to do that.

Mr. BERCOVITCH: Once again I object to any statement of "leading counsel for the government." I am speaking for myself, and I can assure the honourable gentleman that I am not counsel here for anybody. I am sitting here the same as a judge and jury would sit to hear certain matters that may have been submitted to them for investigation. I am doing my bit to bring out the truth and, if it does not suit my honourable friend, I am extremely sorry, but I shall continue to try to bring out the truth.

Mr. DOUGLAS: I want to draw your attention to the fact that yesterday Mr. McGeer sought to read into the record exhibit 244. I objected on the same grounds that have been raised by the previous speaker. I pointed out, first of all, that the witness said he had not seen this report by the deputy minister. I pointed out also that he was not free to criticize the deputy minister of another department, due to his position; that it was unfair to ask him to say whether it was a fair or unfair report in view of the situation in which he found himself. These gentlemen did not support that point of view and Mr. McGeer insisted on reading the report into the record. He took some thirty minutes this morning to read that document and to ask questions relating to it. No one is criticizing that. That was a report from the deputy minister to the minister.

Mr. MCPHEE: Who was the chairman of the interdepartmental committee of which the witness was a member.

Mr. DOUGLAS: It was the report of the chairman of the interdepartmental committee concerning the work of the interdepartmental committee. Now Mr. Green proposes to read a report of the Minister of National Defence to the Governor in Council relating in part to the work of the interdepartmental committee. Certainly that is as much in order as was the report which Mr. McGeer read. If everything that Mr. McGeer wants to read, in spite of our objections, is to be read, whereas everything Mr. Green wants to read is to be refused, then I say this investigation is going to become a farce and will defeat the purpose for which the committee was set up.

Mr. McGEER: First let me say in answer to my friend from Saskatchewan that the report I read yesterday was the report of the chairman of the interdepartmental committee, of which the witness was a member.

Mr. DOUGLAS: Yes, but—

Mr. McGEER: May I, without the assistance of other gentlemen, complete my own argument? To-day the question comes up as to whether or not this witness should be examined upon the report of the minister to the Governor in Council. I want further to say that this witness informed the committee at the very outset that all of the information with reference to the historical background of the contract had been placed before the committee at the very beginning of its meetings; that after that—the report was really a report of the negotiations and work which the committee had developed—there was nothing in the report of which he did not have knowledge. Now, when members say that we are trying to keep off the record information that they think should go on the record, that is quite wrong and quite unfair. I made it clear in my opening remarks, and I think every member of this committee heard them, that I thought this witness was not the witness to be examined in connection with this report; that this report should come under review when the minister who made it was examined as to its contents.

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Mr. GREEN: Why did you not wait until then, yourself?

Mr. McGEER: I wanted to ascertain from this witness whether as a member of the committee there was anything that should have been included in that report that was not included, and because I wanted to ascertain from this witness from his firsthand knowledge whether there was anything in the report which was an improper statement of the facts concerning the work of the committee. The reason was that it was a report of the chairman of the interdepartmental committee, not a report of the Deputy Minister of National Defence.

Mr. DOUGLAS: He had a dual capacity.

Mr. McGEER: I was examining this witness with reference to the work of the signer of the report as chairman of the interdepartmental committee. Now, the only reference in this report to the interdepartmental committee is this: "The financial aspects—"

Mr. GREEN: Mr. Chairman, I object. Has the member for Vancouver Burrard the gall to come here and try to read part of this report himself? If that is not absolute unfairness, I do not know what is.

Mr. DOUGLAS: Mr. Chairman, I want your ruling.

Mr. McGEER: I object to that remark as being grossly unfair and reprehensible. Now, Mr. Chairman, what I am—

Mr. DOUGLAS: Do we get a ruling, Mr. Chairman?

Mr. McGEER: I have the right to argue a point of order.

Mr. DOUGLAS: You made a ruling, Mr. Chairman.

Mr. McGEER: There is part of this report upon which the witness might be examined.

Mr. GREEN: Then what are you kicking about?

Mr. McGEER: I want it confined to this.

Mr. GREEN: Why did you not confine yourself to the one part?

Mr. McGEER: Because I was quite right in examining on all the report, and nobody can tell me what to examine on.

Mr. GREEN: Then do not try to tell me what I know and what I do not know.

Mr. McGEER: I would have more difficulty in telling you what you know; I might not have much difficulty on the other point.

The CHAIRMAN: Order.

Mr. McGEER: Mr. Chairman, as far as this report is concerned, it is not a matter of what is in the report, it is a matter of procedure. I suggest that witnesses must be examined with regard to matters of which they have knowledge. They cannot be examined on matters performed by others with whom they have not been associated.

The CHAIRMAN: Gentlemen, may I request from all sides of the meeting that no further references be made to "counsel for somebody?" I think it will help us out a little bit.

Mr. McGEER: Oh, do not worry about that, Mr. Chairman; we can take care of those remarks.

The CHAIRMAN: I do worry about it because we have work to do and I do not think we are gaining anything from any side of the house by references one way or the other to prosecuting attorneys or counsel for somebody else. I can assure you I have no counsel here.

In connection with the matter under discussion I suggest that the report which the honourable member wishes to read is an exhibit and part of the examination and evidence taken before Mr. Justice Davis. I cannot see that

I can possibly rule against his right to read that report and when he is finished the witness then can answer whether he has any knowledge of it or not, and that will end the matter.

Mr. McPHEE: And if he has no knowledge of it, what about it?

The CHAIRMAN: He certainly cannot answer the question if he has no knowledge of it.

Mr. McPHEE: But it is on the record.

Mr. DOUGLAS: A telegram was read this morning of which the witness said he knew nothing.

The CHAIRMAN: The honourable member has the right to read the report.

Mr. McGEER: I asked the witness, "Was not this information conveyed to you by the Department of National Defence?" The witness said "Yes."

Mr. DOUGLAS: Did the witness say "Yes"?

The WITNESS: I was not really following you; I was thinking of something else.

The CHAIRMAN: Now that we are in a better frame of mind you may proceed, Mr. Green.

Mr. GREEN: This part of exhibit 245, dated March 17, 1938, addressed To His Excellency, the Governor General in Council, from the Minister of National Defence:—

The undersigned has the honour to report that a new type of light machine gun known as the Bren gun has been adopted as standard military equipment, and that the estimated number required by the Canadian forces is seven thousand (7,000).

It has been ascertained that due to the requirements of the war office a supply of Bren guns sufficient to meet the minimum requirements of the Canadian forces cannot be procured from England for some years, and it has therefore been necessary to consider establishing a plant in Canada for the production of the gun in question. Further, on account of the vulnerable location of the plant in England where these guns are being manufactured, it is desirable that there should be a further source from which an uninterrupted supply could be maintained.

The patentee of the Bren gun has granted a licence to the Secretary of State for war for the manufacture of these guns in Great Britain and elsewhere in His Majesty's dominions under licences which the Secretary of State in turn will grant to Canada.

The exigency of the situation necessitates that steps be taken towards procuring an early and assured supply of these weapons for the Canadian forces. The technical nature of this weapon, it being of a new type never yet having been manufactured in quantity, indicates the impossibility of proceeding otherwise than on a cost-plus basis, and under exacting provisions regarding supervision and financial control by the Department of National Defence. The war office has advised that in its experience no other form of procedure has been found satisfactory.

On that point it was especially explained to you—

Mr. McGEER: Let us have the record. We are reading this record in before it is to be examined on. Do not change your procedure.

Mr. GREEN: You did it. However, I will go on.

The war office, having satisfied itself as to the standing and ability of the John Inglis Company Limited of Toronto, has indicated willingness to place an order with the firm for a considerable quantity of Bren guns. The very large financial advantage which would accrue

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to Canada in obtaining guns from the same source resulted in negotiations being carried out with the said company for the manufacture of Canadian requirements of Bren guns on a cost-plus basis, with the result that the company has agreed to proceed with the manufacture of seven thousand (7,000) of these guns as and when ordered by the department, in accordance generally with the provisions of the draft agreement annexed, the financial aspects of which have been considered and found fair and reasonable by the interdepartmental committee on the control of profits on government armament contracts.

The deputy minister recommends that authority be granted to enter into an agreement in accordance generally with the provisions of the draft annexed. The estimated cost of machinery, equipment, tools, etc., which would remain the property of the crown, is \$1,102,482; the estimated total unit production cost to the department is \$411.91 or \$7,000 x \$411.91—\$2,883,370. Funds to pay those incidental expenses only which are incurable under the terms of the proposed agreement during the fiscal year 1937-38 are included in general stores vote, Department of National Defence. Commitments under the contract for future years to be conditional upon the necessary monies being voted by parliament. The undersigned concurs in the recommendation of the deputy minister and has the honour to recommend accordingly. Respectfully submitted, Minister of National Defence.

Mr. McPHEE: That is highly proper.

Mr. Green:

Q. There are three points I would like to question the witness about. One; was it not explained to you that the Bren gun in England was being manufactured at the government plant?—A. At the Enfield plant, yes.

Q. Not by a private firm?—A. That is right.

Q. And then the second point has to do with the sole reference to the work of the interdepartmental committee; is there any reference to the fact that you people had considered the possibility of calling for tenders?—A. In the document that you read?

Q. Yes.—A. I do not recollect any reference to competitive tenders in the document; are you referring to some that are in there?

Q. Oh, no; I am asking you if there is?—A. Oh, no.

Q. Then, the third point I want to raise is the question of production cost. Now, you went into that very carefully and some days ago you gave us figures to show the cost. The statement was filed. I do not know the number of the exhibit, but it is entitled, "Financial phases of Bren gun contract"; and if you will look at that statement which you gave us—A. Yes, I have it.

Q. Now, if you would just check these figures. As I read your statement the production cost to Canada is made up of the following items. I will just make a note of them and see if my additions are right. First of all, there is two-thirds of the preliminary expenses of \$20,000, which amount to \$13,333.33; then we have two-thirds of the capital machinery cost of \$1,108,000, which would make \$738,666.66?—A. Yes, I am following you.

Q. If they are incorrect just let me now.—A. They are taken from the statement. I think they are correct.

Q. Then two-thirds of the preparatory overhead of \$124,984, which amounts to \$83,322.62?—A. That is right.

Q. Two-thirds of the tools, dies, jigs, etc., amounting to \$427,749; which makes a cost on that item to the department of \$280,496.66. And then seven-twelfths of the production cost of the guns, which was given as \$3,985,477; which would make Canada's share of the production cost \$2,324,861.58; is that correct?—A. That is right.

Q. And then the spare and component parts, which amounts according to your statement to \$1,307,000; the whole of that figure being charged to the dominion government.—A. That is right.

Q. That makes a total cost to Canada of \$4,747,683.89.—A. \$4,755,000—I am giving it in round figures.

Q. \$4,755,000 is it?—A. Yes.

Q. What is the exact figure, Mr. Elliott?—A. I have just added it on the basis of thousands, and I make it \$4,755,000.

Q. That is near enough. Then, in addition to that, there is a profit which can be \$267,000?—A. That is right.

Q. There is some dispute as to whether or not that will be obtained? In addition to that there is a royalty of \$15 a gun, amounting to \$105,000; making a total of how much?—A. \$5,127,000.

Q. And in addition to that, of course, there is the Ross rifle equipment valued at \$209,000; and we have no tripods. At any rate, this cost which is shown in this report from the minister to the cabinet is less than one-half of the estimate, is it not?—A. We would have to find out—

Mr. McGEER: Mr. Chairman, I again object—

Mr. MacNEIL: He did not get the answer to his question.

Mr. McGEER: I am objecting to the question. You see, I have that right. We are not in Russia yet. Mr. Chairman, what I want to draw to your attention is this very thing. That is my reason for objecting to this report. Here is a witness who did not make the report and who has nothing to do with it.

Mr. GREEN: You did the same thing.

Mr. McGEER: He is being examined on what somebody else did; and this examiner puts this question, "The estimates you give are less than one-half of the estimates given to the government." This is the estimate on the cost of the gun, not on the cost of the gun and the components and tripods and all other things. It is an estimate of just exactly what it says. And now, you see, if this witness knows anything about this report and the way it was made, what qualifications there were to it, then it is all right for him to be examined on it; but if he does not you are going to have a record that will only have to be dealt with later on and possibly completely changed because of the lack of information which this witness has.

Mr. GREEN: I will put it in this way: Mr. Elliott, you say the interdepartmental committee's estimated cost of production was \$5,127,000?

Mr. FACTOR: That is not correct.

The WITNESS: No, it is not. If you don't mind, we will work it out factually. It is all explainable. As you gave the figures to me it is not wholly a matter of estimate. It is adding to the amount I gave you.

By Mr. Green:

Q. What does it add to your estimate?—A. You have added that which is not in the estimate you read from; namely, the royalty.

Q. Take off the royalty.—A. All right.

Q. Very good. Let us have the answer. If it is going to be better, take it off.—A. The next thing that is not in my estimate is this figure relating to spare and component parts; it is in my estimate after the signing of the contract, and that is \$1,307,000.

Q. Of course, we had to have spare and component parts?—A. No. Correct that. It should be \$2,324,861. No, I am wrong there, it is \$1,307,000. And now, I think it is very often—

Q. That is for spare and component parts?—A. Yes, you have added that in your estimate.

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Q. You have got to have them before the gun can be of any use?—A. I agree with you, but we must explain the figure that is before us in this report of some \$411 per gun. I will remind you that when this contract was signed we did not know what the spare and component parts were going to cost, and subsequent to that we did learn that it would be \$1,307,000. Therefore, it was quite impossible—and I speak not of the minister's report but I speak of the technical officers in the department at that time—they could not have given information in respect of that which they did not know. Therefore, the estimate of the gun which in this report you observe is low, and you are correct in that, is low because it was based on the then known figures.

Q. Well, but you have the other figures in your statement, they were then known if the component parts were not; all the other figures were known, were they not?—A. Yes, I agree with that.

Q. So the most you should take off would be \$1,307,000 for spare parts?—A. That is right. Take the \$1,307,000 and the \$105,000 royalty, because that was not drawn in the estimate of making the gun; that was something which related to the right to make the gun as opposed to the actual making of the gun.

Q. Even taking that off you still have approximately \$4,000,000?—A. Yes. And left, I think, \$3,448,000, your first figure.

Q. That is without any profits?—A. Yes, that is without any profits.

Q. Profits should be included in that figure also?

Mr. McGEER: Oh, now, how do you know—

The WITNESS: Let me carry on there. It is a debatable point, and we might as well look at it. The cost of making the gun is the thing we were talking about; and there are two phases. When you are making your estimates you say, now what is the cost of making that gun? The cost of the permit to you to make it is going to be 10 per cent on that cost; therefore, your mind has to be directed to the cost of making the gun as the cost plus.

Q. This report says the estimated total unit production. There is nothing in this about any 10 per cent cost on top of that.—A. I am quite sure that is the way they looked at it. I feel that is the way.

Q. Then, Mr. Elliott, also according to exhibit 246—which is the order in council passed on the 27th of March, 1938— —A. I have it.

Q. That is certified: "The committee of the Privy Council have had before them a report, dated March 17, 1938, from the Minister of National Defence, submitting as follows: "

Now, Mr. McGeer raised the point about the deputy minister's report of March 21st being dated after the report from the minister to the cabinet which I have just read, and if there is another report from the Minister of National Defence to the cabinet between March 17th and the date of this order-in-council of March 22nd, 1938, I cannot find it on the record.

Mr. McGEER: That is why I say the proper witness to examine about this information is the Minister of National Defence, not a man who has no knowledge of what transpired between the minister and the cabinet.

Mr. GREEN: If he had no chance to put in the report after that—

Mr. McGEER: How could this witness say he had no chance to put in a report? Don't you see what you are doing? I do not wish to be critical.

Mr. GREEN: I have noticed that this morning.

Mr. McGEER: But as I say, I do think there is a procedure which is reasonably well known to lawyers, and that is the reason why we have a rule that properly witnesses should be examined with reference to matters with respect to which they have personal knowledge.

Mr. GREEN: It is a wonder to me why you did not think of that method before you started in yourself.

Mr. McGEER: I thought I made that abundantly clear, that I would examine this witness on his knowledge of the procedure by which that report

was created, the procedure by which it was made and the facts which it included, and confirm it later by calling the official responsible for its preparation. You see what you have done, you have gone off to an extreme.

Mr. GREEN: Now, Mr. Chairman, I would like to go ahead on this order-in-council:—

The committee of the Privy Council have had before them a report, dated March 17, 1938, from the Minister of National Defence, submitting as follows:—

A new type of light machine gun known as the Bren gun has been adopted as standard military equipment, and the estimated number required by the Canadian forces is seven thousand (7,000).

It has been ascertained that due to the requirements of the war office a supply of Bren guns sufficient to meet the minimum requirements of the Canadian forces cannot be procured from England for some years, and it has therefore been necessary to consider establishing a plant in Canada for the production of the gun in question. Further, on account of the vulnerable location of the plant in England where these guns are being manufactured, it is desirable that there should be a further source from which an uninterrupted supply could be maintained.

The patentee of the Bren gun has granted a licence to the Secretary of State for War for the manufacture of these guns in Great Britain and elsewhere in his Majesty's Dominions under licences which the Secretary of State in turn will grant to Canada.

The exigency of the situation necessitates that steps be taken towards procuring an early and assured supply of these weapons for the Canadian forces. The technical nature of this weapon it being of a new type never yet having been manufactured in quantity, indicates the impossibility of proceeding otherwise than on a cost plus basis, and under exacting provisions regarding supervision and financial control by the Department of National Defence. The war office has advised that in its experience no other form of procedure has been found satisfactory. The war office having satisfied itself as to the standing and ability of the John Inglis Company Limited of Toronto, has indicated willingness to place an order with the firm for a considerable quantity of Bren guns. The very large financial advantage which would accrue to Canada in obtaining guns from the same source resulted in negotiations being carried out with the said company for the manufacture of Canadian requirements of Bren guns on a cost plus basis, with the result that the company has agreed to proceed with the manufacture of seven thousand (7,000) of these guns as and when ordered by the department,

I would like you to notice this part of it:—

In accordance generally with the provisions of the draft agreement annexed, the financial aspects of which have been considered and found fair and reasonable by the Interdepartmental Committee on the Control of Profits on Government Armament Contracts.

The minister, on the advice of the Deputy Minister of National Defence, recommends that authority be granted to enter into an agreement in accordance generally with the provisions of the draft annexed.

The estimated cost of machinery, equipment, tools, etc., which would remain the property of the crown, is \$1,102,482; the estimated total unit production cost to the department is \$411.91, or $7,000 \times \$411.91 = \$2,883,370$.

[Mr. C. Fraser Elliott.]

Funds to pay those incidental expenses only which are incurable under the terms of the proposed agreement during the fiscal year 1937-1938 are included in general stores vote, Department of National Defence, commitments under the contract for future years to be conditional upon the necessary monies being voted by parliament.

By Mr. Green:

Q. In that order in council, Mr. Elliott, do you find any mention of the question of whether there should have been competitive tenders called?—A. No, there is nothing mentioned.

Q. But you find in this the same figures that we found in the report from the minister to the cabinet which I read previously?—A. That is correct.

Mr. GREEN: That is all I want to ask on that point.

By Mr. MacNeil:

Q. But the minutes of your committee reveal that your committee gave consideration to this matter of competitive bids in the earlier stages?—A. That is right.

Q. I understood you to say the other day that these differences were composed by reason of a certain statement made by the Deputy Minister of National Defence?—A. I think you must have misunderstood me. I said that the situation was not quite as intense due to his assertion that the responsibility for non-competitive bids rested with his department. But the final decision on the contract was composed by a realization that it was in conjunction with a British contract of advantage to Canada to enter upon it.

Q. Might I be clear; just how were these differences composed with regard to competitive bids? You accepted no responsibility as a committee on that score?—A. I just don't know what you refer to as not accepting responsibility. We did certainly take our responsibility when we advised that contract.

Q. Yes, but I mean, with regard to competitive bids?—A. With regard to competitive bids, we dropped it mainly for this reason; not because the deputy minister of the department said we will take the responsibility, but we dropped the competitive bids because England said, if you are going to insist upon competitive bids then do not expect a contract from us; and to lose that advantage was too much for the committee to risk, so we composed it on that specific statement from England.

Q. And the situation in England was largely communicated to you through the medium of the deputy minister?—A. Oh yes, that is right.

Q. On the point of delay being dangerous?

Mr. McGEER: No, no; through the wires you received.

The WITNESS: Oh, well, those cables and communications came to the deputy minister and through the deputy minister to us. The answer is right.

By Mr. MacNeil:

Q. On the question of delay I refer to exhibit No. 51, which I understand is before the committee. I am reading from the 4th paragraph:—

Largely because the department waited a very long time for the decision on the part of the war office, final action in obtaining machine guns has been greatly delayed, possibly dangerously delayed.

That is a communication addressed under date of January 20th, 1938, to the members of the interdepartmental committee?—A. Yes.

Q. Was that the effect of the advice given to you by the chairman of the committee; that they accepted responsibility for the delay which had previously occurred?—A. Oh, yes; they did finally; and they must factually.

Q. And I take it your committee considered the advisability of preparing a report as such of the interdepartmental committee, the same to be communicated to the Governor in Council?—A. No. The reports of the committee were, as I indicated some time ago, reduced to writing—stenographic reports through the medium of a young lady, a stenographer, who attended the meeting, but she did not take it down verbatim by any means; but if anyone wanted anything in particular recorded he would say, now I wish that not to be overlooked, and she took a general report of what appeared to be the deciding elements and factors.

Q. Were these minutes subsequently approved by your committee?—A. Some of them, yes; and some of them, no. They were approved in this way; the minutes of the first meeting were sent to the members of the committee, and you will find in the record complaints. I remember that I had one in connection with the minutes recording the proceedings of the first meeting. We had a ten-hour meeting, or something like that. I may be wrong in that; at any rate, we had a long meeting, and I got a very short resume of that meeting. I wrote a letter to the deputy minister—I remember reading it to Dr. Clark—and I think thereafter he wrote one also, indicating that the minutes were too abbreviated. Thereupon a further draft of the minutes was sent out to us and we received them; and again, while they were not absolute reflection of what took place, yet they were reasonably indicative and we received no further objections. So, in that way, to answer your question, we really actually approved of the minutes, but not by the sort of statement, “do you find any special objection?” and “are the minutes passed?” although I am not so sure that in the first meeting that was not asked. Certainly it was not in the last two meetings.

By Mr. MacNeil:

Q. Is it within your knowledge that on January 12 Dr. Clark wrote to the committee complaining of certain passages or items reported in the minutes?—A. Oh, yes. That is the time I called him up and said, “Do you not think these things are brief?” and I read him a letter I had already written; then he wrote one himself. It is just about that time, so I have no doubt it is January 12. There was only one letter written by me and one by him.

Q. Would it not have been possible for the committee to have prepared a document and said, “This is our report as approved by the committee” in order that such report might be available to the governor in council and in which report there would be incorporated your views with regard to competitive bids?—A. Well, it was possible; but let us look at it on the situation of the night of March 17-18. The requirement was to have the contract completed for presentation to council the next day at eleven o'clock. The committee made a good many changes that night. First, the contract had to be redrafted incorporating those changes. In the limited time that was at our disposal then, was it possible to have a written report? Yes. But was it really practicable at that time and within that space of time? I would say “no,” unless we wanted to sit up until six or seven o'clock in the morning just writing a report, when we had passed the contract.

By Mr. McGeer:

Q. Quite apart from that, was not the contract which you finally unanimously agreed upon— —A. Yes.

Q. —your real report?—A. I have said that several times.

By Mr. MacNeil:

Q. I am referring to the minutes of your second meeting on January 24.—A. Yes?

[Mr. C. Fraser Elliott.]

Q. Did you not on that occasion reach a certain important decision which could not possibly be incorporated in the contract? On that occasion you were carrying out the first part, the first function, as defined in the order in council.—A. Yes. I have a resumé of what we decided and discussed later, and I observe that the discussion in that meeting again centered on the approaching of other firms as opposed to approving a semi-completed contract with one firm.

Mr. McGEER: What is the number of that exhibit?

Mr. MACNEIL: It is exhibit 63.

By Mr. MacNeil:

Q. Were those minutes approved by the committee? I am speaking of the minutes of January 24.

Mr. McGEER: What is the date of that?

Mr. MACNEIL: It is exhibit 63, the minutes of a meeting held on January 24.

The WITNESS: I rather think that they were referred to in the opening of the next meeting, and no objection was taken to them; so in that way they were approved. That is my recollection.

By Mr. MacNeil:

Q. Did you take any precaution to see that those minutes should be attached to the documents going before the Governor in Council?—A. No, we did not, as a committee.

By Mr. Douglas:

Q. I should like to ask you a question, Mr. Elliott, and I want to come back to the statement on page 41 of the commissioner's report which was mentioned this morning by Mr. Green and by Mr. McGeer, where he says, "the system broke down when the committee failed to report back to the body that had created it." We read the order in council into the record yesterday, so I do not think it is necessary to refer to it again. But I would take the system to refer to the kind of committee set up by that order in council. That order in council, first of all, did not provide for any report nor did it set up any machinery whereby this interdepartmental committee could report directly to the Governor in Council what had set up that body?—A. Other than that machinery which had been long established by long usage, namely, reporting through your chairman.

Q. Yes, but it did not set up any direct contact?—A. It did not set up any special means of reporting, apart from the long established methods.

Q. That was an indirect method. There was no direct method. That was report by the minister to the Governor in Council?—A. That is a matter of opinion whether it is direct or not. I would say it is direct for all committees to report through their chairman, through their minister, to council. I would not say that is indirect, or I would be condemning a long established system. But if I may help you, it was our view as a committee that it would be carried through the usual channels. To answer your question, the order in council as far as I know, does not contain any other method.

Q. No. It does not set up any means by which the committee as a whole could draw up a report in which they all concurred and submit that report to the Governor in Council?—A. It does not refer to any such procedure.

By Mr. MacNeil:

Q. But you might have done so through the chairman?—A. We might have, yes; but again the element of time that last night had an effect.

Q. Under the circumstances, you felt you should rely on the chairman to report your views to the Governor in Council?—A. We did factually.

Mr. McGEER: And the contract.

By Mr. Douglas:

Q. The order in council also made no provision whereby, in the event of a difference of opinion, that difference of opinion could be placed before the Governor in Council except through the usual channels that you have already mentioned?—A. I think that is correct.

Q. It seems to me when the commissioner says the system broke down, he has these two things in mind. I do not think the fault can be laid at the door of the committee. There was no provision for either of these two things, either for direct contact by which a report in which all the members concurred could be laid before the Governor in Council nor—

Mr. McGEER: I do not think this witness can be examined on that.

Mr. McPHEE: Except in the regular course.

Mr. McGEER: This witness cannot be examined as to what the judge meant in the terms of his judgment.

Mr. DOUGLAS: Just a minute. Mr. Chairman, this morning Mr. McGeer gave his opinion as to what the commissioner meant by that statement. I am merely asking the witness if either of these two provisions were made. In my opinion, of course, that is what the commissioner meant when he said that the system had broken down—because there was a lack of these two provisions.

Mr. BERCOVITCH: That is not what the commissioner said at all.

Mr. McGEER: The commissioner does not say that.

Mr. DOUGLAS: On page 41, the commissioner said the system broke down.

Mr. BERCOVITCH: When the committee failed to report back to the body that had created it.

Mr. DOUGLAS: Yes. But I am pointing out, if I may be permitted to do so, and I am asking the witness if there was any control over their report and he said, No, except through the usual channels that had been set up or provided.

The WITNESS: That is right.

Mr. DOUGLAS: May I go on, then?

The CHAIRMAN: Yes.

Mr. DOUGLAS: The witness said yesterday that finally there was unanimity on the part of the interdepartmental committee on two grounds: (1) the result of the cablegram which came from Sir Harold Brown to the effect that the British War Office would not deal with any other company and (2) the feeling that this was a good contract. I just direct the witness' attention to the evidence or to the minutes of the interdepartmental committee meeting held on February 25, which is held about three weeks after the cablegram was received from Sir Harold Brown. Even at this date, this is the point of view expressed on page 2 of those minutes. In the middle of the page we find:—

Doctor Clark then stated that his only objection to enter into a contract with the John Inglis Company was the fact that competitive tendering had not been entered into by three or four other companies capable of manufacturing guns, explaining that he could not, as a member of the committee, take the responsibility for the way in which this particular company was selected.

Farther down on the page we find:—

Doctor Clark agreed that if the department took the responsibility he could no longer object, but stated that it was important that the government be protected, in case publicity is given to the contracts dealt with by the committee, from undue costs and profits which may be involved. He stated that he wished it understood by the public and the government that the committee had reviewed the financial

[Mr. C. Fraser Elliott.]

aspects of contracts such as this, and considered them fair and reasonable, but in this contract he stated that he could not say that they are. The chairman then explained that the wording of the report to council was not such as to involve the members of the committee in matters of choice in connection with manufacturing aircraft, etc. . . .

and so on. May I, just before I ask the question, draw attention to two other references that appear here on the same thing. On page 4 of the minutes of the same meeting, Dr. Clark is quoted as follows:—

Doctor Clark—I cannot conceive that the war office is willing to deal only with one Canadian company, a company which has been through receivership very recently.

Then on page 5 we find:

In dealing with the sections of the contract, Doctor Clark objected to the \$20,000 remuneration provided for in section 3(e) 1.

There are two things. There was certainly a lack of unanimity.

Mr. McPHEE: What is the question?

Mr. BERCOVITCH: This is the start of the question.

By Mr. Douglas:

Q. Here was a lack of unanimity on a number of points, namely, on the question of competitive bids, on the question of the contract—whether or not it was a good or a bad contract—and the question if this clause in the contract with reference to remuneration. Were there any steps taken by those members of the committee who raised those objections—there was another one raised by yourself to which I need not refer—to refer those objections to the Governor in Council or to the ministers of those departments which you represented; I mean yourself and Dr. Clark?—A. Well, the second objection is the one I shall deal with first. I did not quite follow the reading, because my minutes are ones that were delivered to me. But you read where Dr. Clark said that he did not think the terms of the contract were fair and reasonable. Is that not what you read?

Q. That is one of the clauses.—A. I rather think that must be an incorrect reflection of the minds of Dr. Clark and the committee, because the terms of the contract, when we were through with them, we did think were fair and reasonable. If this is an interim objection, it bears out that not only did Dr. Clark object to some of the terms, before we finally completed the contract, as being unreasonable, but I recall to your mind that we had thought the exclusive clause, the assignment clause, the absence of other clauses such as the stock manipulation clause and so forth, gave to the contract an unreasonable advantage.

By Mr. Bercovitch:

Q. In favour of the government?—A. No, in favour of the contractor. If Dr. Clark's comment refers to the interim development as being terms unfair to the government, then I would join with him. But I think I speak his mind and certainly the mind of the committee very fairly when I say that at the end of the matter we thought the terms of the contract were good. I think somewhere in the minutes Dr. Clark is also quoted—probably in the fourth meeting; if I had the time to dig it up, I would do so—as saying, “Yes, I think we can generally agree that the terms of the contract are satisfactory” or very substantially those words. So I say to you on the second objection raised, that it must have been an interim objection, because finally there was unanimity on the contract. Always there was a feeling that we might even have done better

for England if England would only allow us to have these competitive bids. I now come to your first objection, stating that there was lack of unanimity on the competitive bids. Always the chairman thought that competitive bids would be costly in losing the English connection and the base of supplying Canada. But always the rest of the committee thought if we could only get competitive bids along with the English contract, we would get an even better set up. But there was final unanimity on this, that when England said, "you do not get our contract if you want competitive bids" that, as I said the other day—I used the word "foolish" and I would repeat it—we would be a very foolish committee if we had lost that tremendous advantage, and we would have found it very difficult to justify our existence if on the face of the facts before us we still insisted on competitive bids and lost the big monetary advantage that certainly was there.

Mr. DOUGLAS: May I ask the witness this?

Mr. McGEER: Just a minute.

Mr. DOUGLAS: Excuse me just a minute.

By Mr. Douglas:

Q. The statement you make that you would have lost the English contract I assume was based on the cablegram from Sir Harold Brown?—A. Absolutely.

Q. But it came on February 4, and these statements are made on February 25, three weeks after the cablegram was in your possession?—A. That is very true. We still considered—and even to-day I would say it is too bad we did not get competitive bids,—did England really mean that, that she would not allow us, from a selected list, to get competitive tenders for our guns and her guns? That ran through the whole of our meetings, the whole four of them.

Q. Is it fair to say that on February 25—if one may judge from this statement—you were not convinced then that the cablegram of February 4 really meant that you would lose the English contract?—A. Oh, yes; at that date I would say "no," to answer you specifically, because we always had what you can call either a doubt or a hope—we always had the hovering doubt if we went back at England again we might; but after further consideration we finally dropped that hope or doubt that she meant precisely what she said and we said, "We must go through with this on the belief that they mean what they say."

Q. I have just one more question and it is with reference again to the contract. It is true this is an interim report of February 25; but in that report, as I read it, Dr. Clark objected, for instance, to the \$20,000 remuneration clause?—A. Yes.

Q. That certainly was not changed.—A. Oh, yes; the remuneration clause of \$20,000 was added to by stating that we only allow it in respect to preliminary engineering expenses that were—and this was changed—approved by vouchers. The quantum was not changed, but the method of getting it was changed. There was not a straight grant of \$20,000 upon the contract being signed; there was a grant up to \$20,000 if proved by vouchers that the preliminary expenses were of a preliminary engineering character.

Q. Is it not true that the aspect to which Dr. Clark was objecting was the amount?—A. I really could not answer that to my own satisfaction.

Q. Let me read the rest of the paragraph.—A. All right.

Q. That paragraph reads:—

In dealing with the sections of the contract, Doctor Clark objected to the \$20,000 remuneration provided for in section 3 (e) 1, and the chairman pointed out that British practice is much more liberal in the matter of the costs of preliminary investigation, as in the case of aircraft....

[Mr. C. Fraser Elliott.]

and so on and so on.—A. I would say now that almost every term in the contract had some kind of discussion like that. We entered almost every section of the contract by a determination if possible to make it more favourable to the crown. We would say, "Why \$20,000? What did he do? What did he have to do?" The answer is as it was recorded, English practice is liberal and allows that kind of expenses. We said, "Well, even apart from that, let us get absolute proof there were preliminary expenses of an engineering character in connection with this particular contract and place a limit on it of \$20,000." He may have felt that was high; I cannot speak for his mind on that. But we did do it.

Q. Following this meeting there was no report submitted by yourself or Dr. Clark to the Minister of Finance as Dr. Clark's chief, and the Minister of National Revenue as your chief, with reference to any objections that you raised here?—A. As I indicated before, it was not regarded by me at least as proper to run and report something to my minister that belonged to that committee and another department. I felt that in due course he would get adequate reflection through the proper channels.

By Mr. McGeer:

Q. I want to check up on those quotations on page 5 of the meeting of February 25, exhibit 63, which Mr. Douglas has used. These statements are there, are they not? For instance, there is this one:—

Mr. Elliott said that the committee appreciated the government's action and that the committee was only advisory, adding that without the exclusive continuing right feature, the contract was a good one.

You remember that?—A. Oh, yes; very well.

Q. And in the same report, on the same page, on this question of unanimity, we find:—

The chairman then asked if the committee agreed with Mr. Elliott's views, making certain reservations concerning limitation of future rights, and taking over by arbitration, and Doctor Clark said he thought there would be general agreement.

—A. I remember that.

Q. On the question of this doubt as to the finality of the war office decision, there is some interesting information on that. "Mr. Elliott pointed out— A. What page?

Mr. DOUGLAS: Yes, what page is that?

Mr. McGEER: It is on page 5.

By Mr. McGeer:

Q. We find here:—

But Mr. Elliott pointed out that the message from Sir Harold Brown on this question had been somewhat garbled. The chairman then pointed out that a repeat message had been obtained and sent to the members on February 5.

That message, I take it, was not garbled.—A. That is correct.

Q. Yes. So that there was, apparently, according to the minutes here, a decision by yourself that it was a good contract; and subject to the reservations concerning limitations of future rights, there was a statement by Dr. Clark that there would be general agreement.—A. That is right.

Mr. McGEER: Mr. Chairman, the thing that is important here, I think, is that when you take just a word or two or a section or even an evening's discussion in preliminary negotiations but do not carry through to the end, you may get an entirely different opinion, where we have that evidence of unanimity.

By Mr. MacInnis:

Q. Mr. Elliott, in reply to a question in regard to reasons for accepting the contract, you stated, I believe, on a number of occasions, that the reason you finally accepted it was the fear of losing the British contract?—A. That is right.

Q. I find here on page 688 of the evidence, your evidence— —A. Page 688?

Q. Yes. There is a question asked by the commissioner of yourself. It reads as follows:

The COMMISSIONER: I take it you acquiesced in the chairman's assumption of responsibility by his department?

The WITNESS: Quite so. We stated in the meeting at that time that if the department took the responsibility, then there could no longer be any objection. That was a fait accompli, and we had to meet it. But we stated that it was important that the government be protected in respect of these matters, so far as possible, and that the public would be interested, and that we wanted that protection always. We wanted to make sure that undue costs had not been incurred, particularly in relation to the amount of profit to be given.

Those items or consideration were discussed at length. The chairman further explained that the wording of the particular report to council on the conclusions of the committee would not be such as to involve the members of the committee in matters of choice.

At that time the reason that you gave the commissioner for accepting the contract was that there was nothing you could do about it.—A. Was I giving reasons or giving evidence? I suggest I was giving evidence.

Q. This is your evidence.—A. Yes, evidence; not reasons. Let me point out the difference to you, because I was in the witness box giving evidence as to what happened. You will notice that during my evidence I never referred to any particular member or to what any member said; it was a committee matter. I said the committee did so and so and the committee did so and so. I think you will find, if you will go through my evidence, that, except when I was asked specifically about some person on the committee, I never once used anybody's name. Therefore, that which you read a few minutes ago, that the department was taking the responsibility, was a statement which ended in this meeting. A few minutes ago we heard from Dr. Clark's evidence that Mr. Douglas read that if the department took the responsibility, there would be agreement. I was giving that as a matter of evidence in the witness box, not as a matter of opinion. Do you catch the distinction I am trying to make?

Q. Evidently the commissioner also thought that these were your reasons. On page 40 of the commissioner's report he quotes this from the evidence:—

In view of the deputy minister's statement, Mr. Elliott said that the committee "practically reorientated itself in respect of the whole matter."

"We stated in the meeting at that time that if the department took the responsibility, then there could no longer be any objection. That was a fait accompli and we had to meet it."

[Mr. C. Fraser Elliott.]

Then further down on the same page:—

Mr. Elliott proceeded in his evidence:—

“Now the committee, after hearing this, agreed that if the department is taking the responsibility that this particular firm must have the contract, and the war office refused to do business with any other firm than this John Inglis Company, then the force and purpose of the committee expended in getting competitive bids necessarily must cease, and we must face the situation of a contract to be analysed in its particular terms, having regard to the financial aspects and the ultimate profit to the contractor.”

A. That is right.

Q. Does that not indicate that you were faced with a condition that you could not get over?

Mr. McGEER: What page is that again?

Mr. MACINNIS: Page 691 and page 40 of the commissioner's report.

The WITNESS: If there is that as a condition, that is very true, Mr. MacInnis. We were faced with this condition, that the department itself said we think competitive bids are not the thing; we think it so far that we take the responsibility for that. And that was confirmed by the cablegram from England, so we have England saying competitive bids are not the thing. I, as well as the other members of the committee, said we think that competitive bids along with any other condition are the thing.

By Mr. MacInnis:

Q. Yes?—A. This is perfectly correct. We were faced with the condition of England and the department saying competitive bids were wrong, so when we finally as a committee came to the conclusion that competitive bids could not be had we went to the terms of the contract and got on with our job.

Q. Yes, quite; now then, leaving that; and, as the commissioner pointed out, the committee had broken down?—A. Yes.

Q. You were faced here with a decision taken by the department; now, was not your difficulty in reporting to the Governor in Council that the chairman of the interdepartmental committee was of a different mind to the other members of the committee and— —A. On competitive bids?

Q. On competitive bids, and the selection— —A. Our minds were very much alike, and we were all unanimous on the contract eventually.

Q. Quite so; but the question particularly was not the contract, in reporting to the Governor in Council you were not satisfied that competitive bids had not been called, but despite that fact you went ahead and did pass on the circumstances confronting you. I am not finding fault with the contract at all at the moment, because I do not think I know enough about it to express an opinion—but when you came to the point where you thought you should report to the Governor in Council you felt that you could not do so because of the difficulty of the position the chairman was in?

Mr. MACNEIL: That is not the fact.

Mr. MACINNIS: We will read what is on the record. We will read Mr. Elliott's evidence from the report of the proceedings before the Davis commission beginning at the bottom of page 695. I think it is the commissioner who is asking questions.

The WITNESS: It is Mr. Forsyth, I think.

Mr. MACINNIS: No, I think that is the commissioner.

Q. Because if anyone doubts the fact that cabinet council was guarding the public interest, one has only to read the order in council of March 5, 1937. Cabinet council at that time obviously were seeking to protect the public interest by setting up a committee, which, at the time, would seem to be adequate. It might not have been adequate, but it would seem at the time absolutely adequate. Then we find this committee confronted, of course, on your evidence, confronted with the situation where you were told by a deputy minister that that was not your business, but that that would be assumed by his department. I am not for one moment expressing any opinion as to the righteousness of it; but you say your committee really felt that there was nothing to do but to acquiesce in it?—A. In open committee that is what we did.

Q. How is cabinet council, which has sought to find protection for the public through the creation of a committee—how are they ever to know of these things, unless they are reported back from the committee? However, you say that is something which presented a difficulty, too?—A. Yes, my mind was exercised on the point, quite so. When you look at the order in council, true, as you say, it is to protect the public interest.

Q. Yes?—A. In these matters.

Q. Very obviously.

Q. Yes. But likewise, not only in respect of this contract, but in respect of previous contracts, they have been referred to us when there is no competitive bid to be had. Even in the short space of time that we have been working on this, that was generally recognized as the contract to be referred to us. We had passed a number. And all modifications and changes that we had made were included, and the contract went on its way, if I may use that term, through the proper channels. So, having made the suggestions that we did, that question was in our minds, as to whether we should go outside of the channel which we had been following. Would we be going to departments which really had not any concern, if we went to our own ministers, because it must be understood we each had separate ministers. Should we, as a committee, apart from the chairman, who had a very difficult task as deputy minister and chairman of the committee—should we, as a balance of the committee, go to some other place and make some report? The ethics of that did not commend themselves to my mind, and I did not raise the point with anybody else, except in discussing it generally with one other member.

Now, here you are faced with that very difficulty that I pointed out before I read it; that you could not very well report because of the differences of opinion with the chairman as a whole, and you could not report without the chairman because you considered it would not be ethical?—A. That is right.

Mr. McGEER: Oh, Mr. Elliott, we have had the report of the deputy minister to the minister, which we are going to prove later on went to the Governor in Council?

The WITNESS: That is right.

Mr. McGEER: In which the Governor in Council was told of the objections of members of the interdepartmental committee.

Mr. MacNEIL: That is not according to the evidence.

Mr. GREEN: No, it is not.

Mr. DOUGLAS: We will be getting into deep water by and by.

Mr. McGEER: This is exhibit 244; I am reading from page 2 of this exhibit No. 244—

Mr. DOUGLAS: That is not to the Governor in Council, that is to the Minister of National Defence.

[Mr. C. Fraser Elliott.]

Mr. McGEER: What I said was, in the report to the Minister of National Defence, which in turn was carried by him to the Governor in Council.

Mr. MACNEIL: That is not what you said, that is the point.

Mr. McGEER: You say that was not what I said, I would like the record to show that you said that that was not what I said.

Mr. MACNEIL: My point is, that it is in evidence this morning that the evidence pertaining to the opinion of the committee is not in the report to the Governor in Council.

Mr. BERCOVITCH: This exhibit No. 244 contains a reference to that. It was on that that the recommendation to council was based.

Mr. McGEER: You say that did not go to the Governor in Council.

Mr. MACNEIL: There is no evidence of that.

Mr. McGEER: We have told you that we are calling the minister in connection with that phase of the matter.

Mr. MACINNIS: You can substantiate that when you call the minister. You are out of court until you do substantiate it.

Mr. BERCOVITCH: Not according to Mr. Green's procedure this morning. He forgot that, you know.

Mr. McGEER: In any event, this report contains this statement, "some of the members insisted that the cost plus tender be submitted to selected Canadian firms." Now, if that report did go to the Governor in Council through the normal channels then the objection made by the commissioner, that there was no such report to the Governor in Council, completely falls to the ground, doesn't it?

The WITNESS: To the extent that it is mentioned in that document that you have just read, yes.

Mr. MACNEIL: Now, are you submitting it is included in the report of the minister to council?

Mr. McGEER: Yes, and I am going to prove it.

Mr. MACINNIS: All he is doing at the present time is making an argument and questioning the witness on his own argument.

Mr. GREEN: And it is all what you would call hypothetical argument.

Mr. MACINNIS: Yes, it is something which has not been properly established, and it is not fair to ask witnesses such questions.

Mr. McGEER: That is what we are here for. We are getting these facts. I agree if there was no such proposition contained in this report given to the Governor in Council then it is a matter for criticism.

Mr. MACINNIS: We need to prove first that it went to the minister.

Mr. McGEER: We will do that. I am pretty sure on that ground.

Mr. MACINNIS: Then why not wait until you can take it up in its turn?

By Mr. McGeer:

Q. When the deputy minister told you that he had certain information from the war office that they would not agree to competitive bids he had in his possession the report of Colonel Loggie?—A. I expect so.

Mr. GREEN: Did Mr. Elliott know that?

The WITNESS: He must have had it to state what he did. There are telegrams which speak for themselves. Very obviously then the deputy minister—

Mr. DOUGLAS: You do not know that. You are assuming that.

The WITNESS: The cablegrams were the basis for the information.

Mr. DOUGLAS: Certainly.

Mr. McGEER: As you told me yesterday, I read Colonel Loggie's report into the record, and you informed me that the information had been conveyed to the interdepartmental committee by its chairman.

Mr. GREEN: Was Colonel Loggie present?

Mr. McGEER: Again, on the subject of my question, surely an interjection of that kind is out of place. I do not see how the witness can answer to all of us speaking at the same time.

The CHAIRMAN: Go ahead.

Mr. McGEER: That information was conveyed—

Mr. GREEN: I rise to a point of order.

Mr. McGEER: Yes?

Mr. GREEN: Mr. McGeer's question may be in order at a certain stage, but he has not yet shown whether Colonel Loggie's report was before the interdepartmental committee or not.

Mr. DOUGLAS: Yesterday it was read from the evidence.

Mr. GREEN: If it is not shown that the report was before the interdepartmental committee the question should not be asked of Mr. Elliott.

Mr. McGEER: What I did do was, yesterday I asked Mr. Elliott if the information contained in that report had been conveyed.

Mr. GREEN: It was not a matter whether the information conveyed in the report had been before the committee, but whether the report itself was read to the committee. Mr. McGeer tries to get around it very nicely by reading a lot of information, reading something and saying was that information discussed in the committee. That is not fair.

The CHAIRMAN: You would do better to put that question direct to the witness.

By Mr. Green:

Q. Did you see Colonel Loggie's report, or was it read to the interdepartmental committee?—A. The cablegrams that came from Colonel Loggie were submitted to the meetings, but the report as such, as a report; I do not think it was submitted to them. As to the substance of it, we were informed as to that.

Mr. McGEER: That is exactly what I put on the report before.

Mr. GREEN: It is not.

The CHAIRMAN: Now we are having very fine lines of demarkation.

By Mr. McGeer:

Q. To substantiate that information; you knew the British War Office were developing the production of the Bren gun in their Enfield plant?—A. That is right.

Q. You were also aware that it was in the preliminary stages of development?—A. Oh, it was a new gun. I do not know what you mean by "preliminary." It was a new gun.

Q. You were informed by the deputy minister that you could not get then their general estimates of costs; I mean, that is abundantly clear throughout the whole proceeding?—A. That is right. I do not know, the term "preliminary" is questionable as to what it means exactly, ultimately. To be more accurate, I would say it is a new gun. They had just entered upon the production of it.

Q. Yes?—A. And the information they had with respect to the cost was to them new, as it was to us; newer to them than to us.

Q. There was nothing before you about that situation, was there?—A. Which situation?

[Mr. C. Fraser Elliott.]

Q. As to the determination of costs?—A. No, about estimates.

Q. About estimates; the war office had apparently developed the policy in matters of this kind of selecting a contractor?—A. We believed that to be so.

Q. And they did that because they believed that that established the best means of securing production at reasonable cost with reasonable speed of production?—A. That would be a reasonable conclusion.

Mr. GREEN: I suggest that asking Mr. Elliott the reason the war office did something is not in order.

Mr. BERCOVITCH: The answer is again, I do not think it hurts anyone.

Mr. McGEER: What I wanted to know is this; as against the decision of the war office had you any evidence as members of the interdepartmental committee that the policy of securing competitive tenders would produce any better results?

Mr. MACINNIS: That is not a proper question, whether they would produce better results or not; their purpose was to get competitive bids. And the witness has shown all through the evidence that the interdepartmental committee was insistent that competitive bids should be had, and they only agreed not to when it was found to be impossible to take it.

The WITNESS: In answering your question—

Mr. McGEER: We will see about that.

By Mr. McGeer:

Q. What I was asking you was this; you were confronted with a policy from the war office, were you not?—A. We were told of it in outline.

Q. And that policy was the selection of a contractor and the letting of a contract where the cost could be supervised by the British War Office?—A. That was brought to our notice as a committee.

Q. And you had also the information from the British War Office that it was not in the profits, but in the total cost of production; that it was necessary—or, I should put it, not alone in the profits but in the total cost of the production of guns that it was necessary to protect the government generally?—A. I am afraid you will have to rephrase that, I did not follow it.

Q. I remember in one of the documents they pointed out that the profits were not the main thing; the main consideration from the British War Office point of view was the total cost which the government was paying—I mean, that is in Sir Harold Brown's statement?—A. Oh, yes, sure.

Q. Now then, you have this policy of the British War Office, the selection of a contractor and the supervision and control of costs, and the limitation of profits?—A. That is right.

Q. That is right; now, the question that I want to put to you is this: Had you as members of the interdepartmental committee any reason for believing or any evidence as a result of investigation or otherwise that the abandonment of that policy and the calling for tenders would produce any better results?—A. We had no evidence.

Mr. MACINNIS: That is a question, again, that he cannot answer.

The WITNESS: We had no evidence on that.

By Mr. McGeer:

Q. You had no evidence on that?—A. No. We had in our minds that if we lost the British contract we would lose a valuable asset.

Q. Had you any information, so far as the committee was concerned, that calling for tenders would improve the results?

Mr. MACINNIS: He cannot answer that question. These questions are all out of order, Mr. Chairman.

Mr. McGEER: I would ask my friends if they have any evidence to submit that calling for tenders would have produced any better results?

Mr. MacINNIS: I will submit my views at the proper time.

Mr. McPHEE.—The situation is this, that:

"All is infected that the infected spy;
As all looks yellow to the jaundiced eye."

Mr. ANDERSON: That is one of the things that we need to inquire into.

Mr. McGEER: What is that you said?

Mr. ANDERSON: Did not the Prime Minister indicate that that was his view, that competitive tenders should be called for whenever possible? But if you want to get information about competitive bids, what is the use of asking this witness questions about that?

Mr. McGEER: If there is one thing this committee should investigate and take evidence on, if there is any evidence available, it is that competitive tenders would have produced better results than this policy of the British War Office which the Department of National Defence adopted.

Mr. MacINNIS: This committee could not possibly go into that.

Mr. GREEN: On that point, the British government was making its own guns at that time.

Mr. McGEER: The British government was not making its own Bren guns, it was letting a contract to have Bren guns produced in Canada.

Mr. MacINNIS: That is the business of the British War Office, and Mr. Elliott is not concerned with that.

Mr. GREEN: The British government makes its own Bren guns.

Mr. McGEER: The British government with reference to its contract for the production of 5,000 Bren guns in Canada had adopted that policy, and the question of changing that policy to the one suggested by the interdepartmental committee was put up to the British War Office and refused?

The WITNESS: That is right.

Mr. McGEER: That is right.

Mr. BROOKS: Because they would not stand for any further delay.

Mr. McGEER: Colonel Loggie's evidence is directly to the contrary of that. Colonel Loggie sent the information to Canada in his report with respect to the British War Office that if they were going to secure a supplementary supply of guns for England they would select a contractor and not call for tenders. I mean, we cannot neglect evidence that is on the record in writing.

By Mr. McGeer:

Q. Now, Mr. Elliott, what I am anxious to know and I think every member of this committee is anxious to know is whether or not there was any reason for believing that calling for tenders would have improved the results that the British War Office considered it could secure under this policy?—A. Well, the answer is quite the contrary, because, with regard to this contract, we would get, as I pointed out some time before, some \$509,000 cash advantage, and we were paying out \$267,000 cost profit; and that meant we were getting more in under this contract than we were paying out, with the result that we were getting the guns at less than cost; therefore, could any competitor in Canada afford to make guns at less than cost? It is a very simple problem. The answer definitely is no.

[Mr. C. Fraser Elliott.]

By Mr. Green:

Q. Under the same contract they would be given exactly the same position?
—A. Oh—

Q. I mean, if you had a similar contract with any other firm?—A. And that is why we wanted competitive bids, because we thought we might have got it even a little lower.

Mr. McPHEE: But you would not have the advantage of the British contract.

The WITNESS: That is the point.

By Mr. Douglas:

Q. You had no guarantee that you would not get the British contract with another firm?—A. No, quite the contrary; but they said, if you do try it, you won't get it.

Mr. McGEER: I have just one question I would like to put, after these interruptions have subsided.

By Mr. McGeer:

Q. Now, is there any evidence that you know of that there was anyone in Canada ready and willing to tender on this composition?—A. We did not get that far in our committee because England said you need not inquire in that direction, having our contract in; so, we did not inquire.

Mr. McGEER: Now, there is one other matter that I think we would have to examine you on, Mr. Elliott, and that is, did you have any evidence of pressure from the Department of National Defence on the British War Office to sign this contract?

Mr. DOUGLAS: How could he have evidence?

Mr. McGEER: I don't know how he could. I am wanting to know if he did, because, you see, this question of pressure is an issue.

Mr. BROOKS: The pressure was on before the interdepartmental committee knew anything about it.

Mr. McGEER: That may be, but that is not all there is to it.

The CHAIRMAN: Order, gentlemen, we want to get an answer to these questions.

The WITNESS: As I said before, the committee were aware that Major Hahn had gone to England, but whether that constitutes pressure or not, I do not know. As to the exact meaning of the term "pressure," I am not clear on that. Factually, I said, that the committee were aware that Major Hahn went to England at one stage in the proceedings. I repeat; is that pressure or is it not; I do not know.

By Mr. McGeer:

Q. I mean, the point is this; there was evidence that it was the war office that were pressing you to get on.

The WITNESS: You ask me, was there any evidence of pressure on the war office. I have answered that. Now, you turn around; did they press us? Decidedly, yes.

Mr. McGEER: There was pressure, so far as you were concerned?

By Mr. Douglas:

Q. The pressure was as to getting on with the manufacture of the guns?—A. Yes, getting on with the work.

Mr. McGEER: Getting on with the execution of the John Inglis Company contract?

The WITNESS: Absolutely.

The CHAIRMAN: Gentlemen, we will adjourn until Tuesday.

Mr. MACINNIS: There is a question that must be asked before we adjourn.

By Mr. MacInnis:

Q. I would like to ask the witness: Why was the interdepartmental committee so anxious to get competitive bids?—A. Possible greater savings.

Q. Yes; now then, the committee was convinced—

Mr. McGEER: It is after one o'clock and if we are going to examine this witness further I think we should do it at another meeting.

By Mr. MacInnis:

Q. And your answer is that because of this contract there could be no saving by competitive bids?—A. Because there would not be any English contract.

Q. In spite of that, I think the evidence you gave before this committee was that as a committee you were insistent that you ask for competitive bids?—A. That is right.

Q. And you were agreed that there were a number of firms that could bid?

Mr. McGEER: Mr. Chairman, it is after one o'clock.

The WITNESS: We were inclined to the view that competitive bids from a selected list would be advisable.

Mr. McGEER: The committee might decide that it could not be done.

Mr. MACINNIS: Now, Mr. McGeer, I will call your full attention to the fact that it is after one o'clock.

The CHAIRMAN: We will adjourn until Tuesday next. These early meetings are too long, so we will meet Tuesday next at 11 o'clock.

The committee adjourned at 1.10 o'clock p.m. to meet again on Tuesday next, May 2, 1939, at 11 o'clock a.m.

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SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 13



FRIDAY, MAY 2, 1939

WITNESS:

C. Fraser Elliott, Esq., K.C., Commissioner of Income Tax,
Department of National Revenue

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 2, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Beaubien, Bercovitch, Bertrand (*Laurier*), Blanchette, Brooks, Brown, Douglas (*Weyburn*), Factor, Ferland, Fleming, Glen, Golding, Green, Kennedy, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Purdy, Rickard, Stewart.

In attendance: Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Department of National Revenue; Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance.

Examination of Mr. Elliott was resumed, during the course of which he filed:

Exhibit No. 11: Bren Gun Costs—Statement showing the various factors usable in calculating the per gun cost.

Exhibit No. 12: Bren Gun Costs—Statement showing the various factors usable in calculating the per gun cost—12,000 guns.

At the suggestion of the Chairman:

Ordered,—That Exhibits No. 11 and No. 12 be printed as appendices "A" and "B" to this day's minutes of evidence.

Examination of Mr. Elliott was concluded.

The committee adjourned until Wednesday, May 3, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

TUESDAY, May 2, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. C. FRASER ELLIOTT, K.C., Commissioner of Income Tax, Department of National Revenue, recalled:

By Mr. McGeer:

Q. I want to go into the question of the costs of the gun. As I remember the record, Mr. Elliott, you were dealing with an estimate made by the deputy minister, apparently, which was submitted to the minister and, in turn, placed before the Governor in Council. As I read the report of the Minister of National Defence, which is exhibit 245, he says:—

The estimated cost of machinery, equipment, tools, etc., which would remain the property of the crown, is \$1,102,482; the estimated total unit production cost to the department is \$411.91 or 7,000 x \$411.91—\$2,883,270.

That, of course, could not include the cost of component parts because at that time you did not know what the component parts were to be?—A. That is right.

Q. It does not include the cost of machinery, which is obviously deducted, if you read the two items together?—A. I think that is correct. I am just finding the article, though.

Q. It is exhibit 245. I have not the page of the evidence.—A. Well, in any event, I rather anticipated that we would carry on just where we left off and I gathered from your remarks at the close of the last meeting, dealing with this very question of costs of the guns referred to in that statement, that that would be the subject matter this morning of our discussion. So, recollecting that I had stated that there are several ways of looking at the cost of making a gun, and realizing that there are 7,000 guns being made for Canada and that the factory is making 12,000, I thought I would prepare a statement for you of the various ways in which the costs of the guns might be considered. I shall distribute this statement if the chairman will permit and I will go over it with you. I hope you will find it reasonably exhaustive. This is being done in my office; I have not one for everybody, so if two members will look at one copy for the moment there are more on the way up as soon as they come off the typewriter.

You will observe that this is a statement showing the various factors useable in calculating the per gun cost. You will remember that the outlay is \$20,000 for preliminary expenses; \$1,108,000 for machinery; \$124,984 for per-paratory overhead; \$420,749 for tools, dies and jigs, and \$3,985,477 for production costs.

Now, of the item of \$20,000, two-thirds is payable by Canada. The statement I am dealing with is the 7,000 gun statement. So Canada's share of that \$20,000 is \$13,333. Then the machinery, four years' use on Canada's two-thirds, that is \$738,666, is two-thirds of \$1,108,000, and four years' depreciation at 10 per cent brings out the figure of \$295,467.

By Mr. Green:

Q. Mr. Elliott, did you make up any statement in which you showed that cost as \$738,666?—A. Yes. I anticipated that and we will come to it later on.

Q. Have you got one on this sheet?—A. To answer that question at once, if, instead of taking 40 per cent of \$738,666, you were to take the whole, or 100 per cent, then the cost of our guns would go up \$24.04, and that would be a fixed item right through.

Q. You will notice that the report to the cabinet said "unit production cost."

Mr. MACNEIL: Total.

By Mr. Green:

Q. Yes, total unit production cost.—A. If you want to wipe out the fact that there is a residual value in the machinery remaining with the government, if you say there is no value, then I advise that you will have to add \$24 to the cost per unit.

Q. You are apparently trying to get out a statement that will break these figures down to something like the figure which was given the cabinet.—A. Oh, no, no; far from it.

Q. You are making your additions or notes about this depreciation after, but to put it right in a statement and then submit it to go out to the public is entirely misleading.

Mr. McGEER: No, Mr. Chairman—

The WITNESS: May I answer that, Mr. McGeer? There is a consistency in everything that I have said even before I ever saw this report of the minister right from the very first day I sat here. In the financial statement which I gave you I stated that there is a residual value in this machinery after these guns are made, and I emphasized that we own that machinery and that it is useable and subject to our direction as to where it will be used at the end of the contract. Now, if I did not continuously say there was a residual value and if, quite the contrary, I did just as you suggest now, put in the whole 100 per cent as the cost of making the guns, I would not be consistent throughout the whole of my evidence.

By Mr. Green:

Q. No, but you are trying now to explain away a figure that was given by the Minister of National Defence to the cabinet by using this system of figuring the depreciation on only four years when actually the contract is for ten years, and dragging that in to cut down the total cost, which I submit is entirely misleading, Mr. Chairman. We have gone over this thing again and again and again. Why do we have to waste time having new statements brought in trying to explain things like this? It is not relevant.

The WITNESS: I suggest that your premises is wrong. I have no interest in bringing down that figure, not the slightest.

Mr. McGEER: Mr. Chairman, what Mr. Green says is quite erroneous. He says this contract is for ten years. There is no such provision as that.

Mr. GREEN: The licence is for ten years.

Mr. McGEER: The licence is different from the contract. The licence has nothing whatever to do with depreciation of the machinery.

Mr. GREEN: We all know the machinery has got to be ripped out.

Mr. McGEER: Please. The reporter can hardly report what we are both saying together. What I want to point out to the committee is that Mr. Green says the contract is for ten years. He is either confused or putting something on the record that should not go on the record. The licence is for ten years. The licence period when the contract is not in operation has nothing to do with depreciation whatever.

[Mr. C. Fraser Elliott, K.C.]

Now, when he suggests that Mr. Elliott is trying to explain something away, it seems to me that that is extremely unfair, because, after all, there are two ways of looking at this proposition. One is the cost of the gun; the other is the cost of the machinery and the gun. Now, the government owns this machinery. It is especially designed and especially selected, as I understand it, to apply on the production of Bren guns and to be useful for the production of Enfield rifles. It is a term of this contract that this machinery shall be available, I would say, generally for the production of small arms but specifically for the production of Bren guns and Enfield rifles.

When this contract is over the government has a value in that machinery. To say that the cost of the gun is going to be the cost of machinery and gun together would be much more misleading than the statement which Mr. Elliott has made. If there is any way by which Mr. Elliott can suggest that on a contract for the production of 7,000 guns you must wipe out the total cost of the machinery, no matter what its value is at the end of the contract, well, that is a very different thing; but until such time as we get some evidence that the total value of that machinery is going to be used up in the production of this particular unit, then to appropriate the entire cost of the machinery to the cost of the gun would be something which I am satisfied no accountant would ever agree with.

Mr. GREEN: Mr. Chairman, this is a good example of why this committee does not get anywhere, because we rush up blind alleys all the time. The figures in exhibit 245 were given by the Minister of National Defence to the cabinet. If Mr. Elliott knows anything about how those figures were arrived at, then I have no objection to his giving evidence of the type he is giving. But there has been nothing yet to show that Mr. Elliott knew anything about these figures at all. If that is the case he is not the man to be going into them and making explanations here and explanations there and simply bringing in statements which may or may not explain it. If he does that there is no reason why one should not call a dozen other people to come in and give their explanations. The man to examine on that is probably the minister himself or the person from whom the minister got his figures, not Mr. Elliott. We are just wasting time in examining Mr. Elliott along this line. It is just a repetition.

Mr. MCPHEE: Just a minute, Mr. Chairman. You recall that I raised an objection at the last meeting to Mr. Green putting on the record a report from the minister to the Governor in Council in connection with this very matter. Considerable discussion took place at the time. You held that he was right, that he should put it on the record. Mr. McGeer started to question the witness with regard to it and the witness' evidence will be found at page 351, as follows:—

Mr. McGEER: Oh, now, how do you know—

The WITNESS: Let me carry on there. It is a debatable point, and we might as well look at it. The cost of making the gun is the thing we were talking about, and there are two phases.

Now then, the witness to-day in furtherance of the duty cast upon him by Mr. Green himself at the last meeting is explaining how this cost is arrived at, and if any fault is to be found then Mr. Green must find fault with himself for at the last meeting having put in the report of the minister to the Governor in Council when this witness was on the stand.

Mr. GREEN: I was putting it in because Mr. McGeer previously put in the other one.

Mr. MCPHEE: You are bound with respect to any evidence this witness may wish to give with regard to it on that account.

Mr. FACTOR: Shall we let the witness finish his statement?

Mr. BERCOVITCH: Yes, go ahead.

The WITNESS: I only wish to make one comment, if I may be permitted; this is simply factual—

Mr. McGEER: Would you mind, Mr. Elliott; I would like to deal with this point. Now, Mr. Green has raised objection to this witness being examined—

Mr. GREEN: On this particular point.

Mr. McGEER: On this particular point. When I objected to this witness being examined on this statement (at page 350 of the report of our proceedings) I said: "He is being examined in what somebody else did; and this examiner puts this question, 'The estimates you give are less than one-half of the estimates given to the government.' This is the estimate on the cost of the gun, not on the cost of the gun and the components and tripods and all other things. It is an estimate of just exactly what it says. And now, you see, if this witness knows anything about this report and the way it was made, what qualifications there were to it, then it is all right for him to be examined on it; but if he does not you are going to have a record that will only have to be dealt with later on and possibly completely changed because of the lack of information which this witness has."

It is a strange thing, Mr. Chairman, that that objection having been overruled and Mr. Green having been allowed to examine the witness to his own satisfaction that the examination should now be closed off to leave the record as Mr. Green has examined it from this witness incomplete; and I submit that Mr. Green himself having insisted upon this examination that we should now complete this witness' information with regard to this report.

Mr. BERCOVITCH: Let us have it.

The WITNESS: Well, I have given a statement of the cost and I have shown there the breakdown for the 7,000 guns, and I am going to show six different answers.

By Mr. Green:

Q. On that first statement, Mr. Elliott, have you taken the Canadian costs of the machinery \$738,666?—A. Yes.

Q. Instead of \$295,467; what difference does that make in the cost per gun?—A. Well, you will have to subtract the \$295,467 to get your answer from the \$738,666.

Q. Will you figure that out?—A. And divide it by 7,000.

By Mr. Factor:

Q. I thought you told us before, if you took 100 per cent of the machinery it would increase the cost of the gun \$24?—A. If I made that statement that is not wholly correct.

Q. No.—A. What I say is this; that I repeat, that the machinery has a residual value, in my earnest judgment.

Q. Quite so.—A. Now, tools, dies and jigs; I put them in there at two-thirds of the cost—we paid two-thirds, and I have taken them at the full price of having no depreciable value—wait a minute, I am looking at the wrong statement. The tools, dies and jigs—

Mr. McGEER: That is \$420,000.

The WITNESS: Yes, but we only paid two-thirds of that.

Mr. McGEER: Yes.

The WITNESS: Therefore it is \$280,000. Now then, these tools, dies and jigs—I am very doubtful whether there is any residual value in them or not, but I rather think there would be. I am sure of it on the machinery, but their residual value—but if you take four years' depreciation on the tools, dies and

[Mr. C. Fraser Elliott, K.C.]

jigs, as would be done in normal accounting, then the cost is \$112,000 that is used up in making guns. But if you wish to use \$150,000 as the value of the tools, dies and jigs that Canada pays for, namely, \$280,000, then the price of the gun is increased by \$24.04.

By Mr. Green:

Q. What is the increase if you take that full amount Canada actually pays for machinery?—A. I haven't figured it out, but I will do so. I have not figured it out because I believe in the residual value of the machinery.

Q. I know that, will you figure it out and let us know what it amounts to?—A. Certainly.

Mr. FACTOR: That is a hypothetical question again.

Mr. GREEN: It is not hypothetical.

Mr. FACTOR: There is no doubt about it being hypothetical.

Mr. McGEER: Then you have to make that first statement of what the machinery and the guns are going to cost. You must apply it that way to keep your records straight.

Mr. FACTOR: You certainly cannot say that there is no residual value to that.

Mr. GREEN: That is part of the total unit cost of production of the guns.

Mr. McGEER: Of the guns and the machinery.

The WITNESS: That makes \$63.30.

Mr. GREEN: Did you say \$63.30?—A. Right, but with that, for my part, I do not agree.

By Mr. Green:

Q. I thoroughly understand that. If you take the amount that Canada is actually paying for the machinery you would have to add on \$63.30?—A. That is right.

Q. And then add on another \$24.04 for the tools, dies and jigs; is that correct?—A. Yes.

Q. And you would have to add these two figures to each one of these values of cost?—A. Mathematically speaking, and on your statement, I agree.

Mr. BERCOVITCH: As the total cost of the machinery and the guns.

The WITNESS: That is right.

Mr. FACTOR: If you do that you might as well add on the figure with respect to spare and component parts, and that would be a million more.

Mr. GREEN: That would have to be added on.

Mr. McPHEE: Why not add the total cost of the \$63,000,000 of the defence estimates if you are going through the statement and adding on the cost of the spare and component parts.

Mr. BERCOVITCH: I think it would be fair if we allowed Mr. Elliott to continue his prepared statement. It is apparently very interesting and I for one would like to hear it.

Mr. McPHEE: And let us reserve examination on it until he has finished.

The CHAIRMAN: Supposing we agree on that.

The WITNESS: Well, the first cost of the 7,000 guns on the basis that we have been discussing was \$404.17 per gun. When the profit of \$267,000 to the contractor is added to the cost, the cost would then be \$3,096,184, and that would be \$442.31 per gun. The cost with the cost of spare and component parts amounting to \$1,307,000 added would be \$4,403,184. And the cost of 7,000 guns, contractor's profit, and the spare and component parts, the cost would be \$629.02 per gun. Now, when the royalty of \$15 per gun is added that is a total of \$105,000 for the 7,000 guns.

By Mr. McGeer:

Q. Mr. Elliott, should not you add in that your (2) cost of 7,000 guns including contracted profit; should not that statement read the cost of 7,000 guns, machinery and contractor's profit?—A. Oh well, that is in that part of it.

Q. Yes, but it is not in this part, I mean to say, you take all these things down here then you make your (3) cost of 7,000 guns, contractor's profit, spare and component parts—machinery is left out there again?—A. I am only mentioning what is added to the opening part of the statement, and I include in that such part of the machinery as is depreciated. That is a preparatory figure to what follows. Those figures are included with respect to each supplemental part of this statement. I am not mentioning them as I go along simply to avoid repetition.

Q. I think in a statement of these costs we should have that information included in each section. If I were to pick it up and read it to the house without giving the preliminary statement, or if I made a cursory examination of one of the supplementary sections, as is often done, I might be giving misleading information.—A. I was not contemplating where it would be read, or by whom it would be read. I just contemplated bringing to the committee just as best I could.

Q. Would it not be advisable to include that?—A. Would it not be acceptable if I said that the top part of the statement was included in every one of these successive statements; but in order to avoid repetition I am not repeating it in respect to each supplementary statement?

Q. So long as it is definitely on record as being included.—A. I was at the point that the royalty of \$15 per gun added—and that for 7,000 guns is \$105,000—the cost would then be up to \$4,508,184, and then the cost per gun would be \$644.02. Now, when the value of the Ross rifle machinery is included in this added value \$107,000—and I point to that from the evidence that was given here when Colonel Orde was giving his evidence, and I am not sure of that statement at all, I am just trying to put in everything that we should have put in evidence from this point on—that is added value of \$107,000, depreciation throughout four years at 10 per cent, or \$42,800, would require to be included in which event the total cost would be \$4,550,984, or \$650.14 per gun. However, we allowed here that the Ross rifle machinery at a book value of \$209,000 should be included; therefore, I have another statement; when the value of the Ross rifle machinery is included at book value, said to be \$209,000, the depreciation for four years at 10 per cent thereon or \$83,600 would require to be added to the \$4,508,184 in which event the total cost would be \$4,591,784, or \$655.97 per gun. Now, that is the amount relating to the 7,000 guns for Canada's use, and taking in as far as I can find all possible costs and developing them as the statement does. Now then, you can select for your own purposes which one you think is correct.

By Mr. Bercovitch:

Q. And not allowing anything for the residual value of the machinery, the tools, dies, jigs, etc.?—A. I believe they have a real residual value, but I have not taken that in.

By Mr. MacNeil:

Q. That is in statement No. 1?—A. Not the residual value. We have taken expense on that machinery as an expense—we have taken depreciation, I should say, on the machinery that we owned for the four years that we own it at 10 per cent per year; therefore, that 10 per cent per year has been taken as an expense in these calculations.

[Mr. C. Fraser Elliott, K.C.]

By Mr. Green:

Q. Then, on the basis of what Canada actually pays for the machinery, and for the tools, dies and jigs, you would have to add each of these figures to the cost of production, a sum of \$87.84; would you not?—A. You mean, to add that \$63.30 and that \$24.04; that would be \$87.34.

Mr. MCPHEE: That would be the cost of the gun and the machinery?

The WITNESS: That is right.

By Mr. Green:

Q. So that the final figure would be \$743.31?—A. Assuming you add that to the figures.

Q. Added to the figure at the bottom of the page?—A. You have selected the \$655.97.

Q. Yes?—A. And you have added to that \$87.34.

Q. Yes?—A. All right.

Q. Then what would you have to add to that figure if you took the Ross rifle machinery at its value, \$209,000?—A. That is what you have done. You have done that already. You have selected the \$655.97, the full value and not the depreciation value—I don't know, I would have to calculate it again.

Q. Could you figure that out?

Mr. FACTOR: This is carrying it to the point of absurdity. I cannot see the value of an examination of that kind at all.

The WITNESS: The whole of the book value is going to be too low, as to the amount consumed in this four year period.

Mr. FACTOR: That is ridiculous.

The WITNESS: As a mathematical calculation I will enter upon it; but as to joining in it, I do not wish it to be recorded as my evidence.

Mr. GREEN: It is a lot more when you take the book value—

The WITNESS: Well, why not? We will take the \$209,000, Mr. Green, the book value of the machinery. We have already included \$83,600 of that in our cost, so we subtract one from the other and that is \$125,400 as the undepreciated value of the machinery; and we divide that by 7,000 and we will get—it is very close to \$18.

Mr. GREEN: That will make the total cost per gun about \$761.

Mr. FACTOR: That is not a fair statement for you to make.

Mr. GREEN: You may argue that if you wish, I am simply trying to get at the figures.

Mr. FACTOR: You are trying to get an addition of certain figures, and you are trying to show that as the cost of the gun while it is not so at all.

Mr. GREEN: That is my opinion, but it may not be yours.

Mr. MCPHEE: I wonder if we could find out the cost of this committee, and then the cost of the Davis commission, and then add that to the price which we have already had given to us?

By Mr. Green:

Q. That would be \$761.31?—A. That is right.

Q. And taking the total amount Canada pays for the machinery and for the tools, dies and jigs, what figure would you have to add to the total cost as shown here, \$4,591,784?—A. You would not have any. You have taken in everything.

Q. You have only taken in a percentage in this statement?—A. Oh, no, with the figure I last gave you you have added everything; this is finality.

Q. But, on the basis of the cost per gun; I mean the total expenditure by Canada now?—A. Oh, well then, I see what you mean; you would have to the \$4,591,784 the undepreciated value to the book value of \$209,000 of the Ross rifle machinery which would be \$125,400. That would be the first figure you would have.

Q. I see?—A. Then you would have to add back the undepreciated value of the tools, dies and jigs which is—

Q. \$168,299?—A. Yes, that is right; and then you would have to add back the difference between \$295,467 and \$738,666, which is the residual value of the machinery.

Q. That amounts to what?—A. I did not put those down.

Q. That amounts to \$443,199, I think?—A. From a general knowledge of it, yes; not speaking mathematically.

Q. You would have to add that to the total cost you have shown, \$4,591,784?—A. Yes.

Q. And I think you get \$5,328,682, approximately?—A. Adding that—to what figure did you add it? \$4,591,000 is what you want to add it to.

Q. Yes, adding these three other items to the \$4,500,000 approximately, you get \$5,328,680 approximately?—A. Approximately, that is correct.

Mr. FACTOR: Why don't you add the undepreciated book value of the Ross rifle machinery as well. You might as well get a larger figure.

Mr. GREEN: You can add on anything you want to.

Mr. FACTOR: Following the same line of reasoning you might as well do that.

The CHAIRMAN: It was simply a case of, "How much wood would a woodchuck chuck if a woodchuck could chuck wood?"

Mr. GREEN: The government woodchucks don't want to chuck the statement up too high.

By Mr. McPhee:

Q. At the time the report was made the interdepartmental committee and the department did understand that there would be a considerable cost with regard to the manufacture of spare and component parts?—A. That is right.

Q. But the difficulty was that you could not prepare an estimate?—A. That is right.

Q. It was known in a general way, and it was known that it would be in the neighbourhood of over a million dollars?—A. I would not say. It was large, I would rather put it that way. Whether it was a million dollars is pretty hard to say. There was a dispute going on as to what really constituted spare and component parts. You may have the expert here and you can ask him later and you will find that we did not at that time know what would be finally determined in that respect, and that it was dependent really upon England's direction, and that it could not be determined until later; but the attitude taken on the part of the contractor was that whatever might be the cost of the spare and component parts eventually determined the contractor would make them.

Q. It was known also at that time that there was to be a royalty of \$15 per gun paid?—A. Oh, yes.

By Mr. Brooks:

Q. You have no idea, Mr. Elliott, of the cost of tripods to fully equip these guns?—A. No, as I said earlier, I do not think they are included in these costs at all; not in this contract.

Q. That would be added cost, of course, to each gun?—A. It would be another contract.

[Mr. C. Fraser Elliott, K.C.]

By Mr. McGeer:

Q. It is not in this contract?—A. No, another contract.

By Mr. MacNeil:

Q. You knew it would be necessary to manufacture spare and component parts and tripods in order to be able to use the gun?—A. I should say that to be able to use them, tripods would necessary.

Mr. GREEN: The minister mentioned that in the house the other day, didn't he?

By Mr. MacNeil:

Q. It was known at that time that there would be some cost involvel in respect to the Ross rifle machinery?—A. Oh yes, surely.

Q. Then it is obvious that those costs which were known at the time were not included in the report to the Governor in Council?—A. For lack of accuracy, and specific knowledge.

Mr. FACTOR: Exhibit 245 includes production cost of the gun; you are speaking about the cost of the gun plus the machinery.

Mr. McGEER: Plus the spare and component parts.

Mr. MACNEIL: Machinery is part of the production cost.

Mr. McGEER: You might as well say that you should have put in some estimate for the cost of ammunition, because there is no use in having a gun without ammunition. You see what you must confine yourself to is the statement in the report that this is the cost of the gun. Now, if you want to say the total cost of the gun, you must include the total cost of the machinery, the spare and component parts and several other things. Surely the one to examine in respect to the meaning of the figure contained in this report to council is the minister who presented the report. He is the one who can give us the complete information.

By Mr. MacNeil:

Q. Is it not true, Mr. Elliott, that in the estimate of the total unit production cost there is already included to some extent the cost of the machinery?—A. Yes.

By Mr. McGeer:

Q. Are you sure about that, Mr. Elliott?—A. Yes.

Q. The cost of two items there, \$1,102,482 for machinery— A. From where are you reading?

Q. From Exhibit No. 245.—A. Oh well, the first question was is there already some cost of machinery in that figure; why, of course, you cannot make a gun without depreciation on your machinery, and one would have to include that. I am giving all the information on the accepted and usual basis, without which you would be in error.

Q. For instance, you take the various factors usual in calculating the per gun costs; you have given the preliminary expense of \$20,000; machinery \$1,108,000, which you reduced to Canada's cost of \$295,467; you have tools, dies and jigs, \$420,749. You have reduced that to \$112,200. You have preparatory overhead, \$124,984; and in addition to the cost of preliminary expense, machinery, preparatory overhead, tools, dies and jigs, you have production costs which you reduced to \$2,324,861, making a total per unit cost of the gun of \$2,829,184, which compares very favourably with the estimated cost in exhibit 245 which is \$2,883,370?—A. That is right.

Q. So that if the department employed the basis of estimating the per unit cost of the gun without including the cost of machinery, other than that which is properly applied to the cost of the gun, the cost of the tools, dies and jigs,

other than that which is properly applied of the gun, and the proper portion of the other items, the estimated cost in the report of the minister to the Governor in Council is more than the figure now given in the light of the subsequent information which we have or which you have had and which the department did not have at that time?—A. It is more than the sum of the figures you referred to.

By Mr. Brooks:

Q. In number one that would be?—A. Quite so.

Q. But it increases.

Mr. McGEER: It increases as you include the costs of the other things in addition to the gun. I mean, I have no objection to anybody coming forward and saying that there has been a misrepresentation of the department to the cabinet; but to say that that misrepresentation has been made because several items which are additional to the cost of the gun have not been included in that estimate is carrying the idea of misrepresentation very far.

By Mr. Green:

Q. Of course, Mr. Elliott, the cost of the gun includes parts, does it not?—

A. I would think so, yes. That is on the statement No. 2.

Q. But the gun is no good without a second barrel and without spare parts? Anybody who served in the army knows that.—A. Well, that is relative statement. If I had one gun here and had no spare barrel, I would think it was more useful than if I were without one.

Q. The royalty had to be paid?—A. Oh, yes, the royalty had to be paid.

Q. So that the very minimum figure is \$4,500,000?—A. When I say the royalty has to be paid, I am told that. As a matter of fact, I am also told that there is some talk of an adjustment. You had better inquire from some subsequent witness about that. I am not sure.

By Mr. Factor:

Q. There was a press report that no royalties are to be paid.—A. I have heard some discussion that there may be some adjustment. You had better ask those who are dealing with that. I have included that as cost. If it is to be paid, it would be included.

Mr. BROOKS: We might thank Germany for that and not our present government.

Mr. BERCOVITCH: Why not damn them for it?

By Mr. MacNeil:

Q. Speaking of the residual value of the machinery, is it not obvious that at the end of the four-year period the machinery would be dealt with very much in the same way as the Ross rifle machinery is being dealt with to-day?—A. I would think so.

Q. The cash outlay on that machinery is vastly more than its book value of \$209,000, or I mean the resale value?—A. You mean the Ross rifle?

Q. The Ross rifle machinery.—A. I do not know what the original outlay was. I do not know if it was vastly more or just partly more. I do not know.

By Mr. Douglas:

Q. The residuary value of this machinery would largely be the book value; you could not sell that machinery in this country unless somebody got a government contract?—A. I could not give evidence on that.

Mr. FACTOR: There would be the residual value to the government manufacturing the machine gun.

[Mr. C. Fraser Elliott, K.C.]

Mr. DOUGLAS: If they wanted to use it; but if they did not, it would be like the Ross rifle machinery.

Mr. BERCOVITCH: It is valuable.

Mr. DOUGLAS: It would not be \$433,000.

Mr. GOLDING: All this machinery has a value. It is applicable to other contracts, this machinery we saw.

Mr. MACNEIL: This machinery is adaptable for only one purpose and only when the government provides a market.

Mr. FACTOR: This government or the British government.

Mr. MACNEIL: By that time the Bren gun would be obsolete.

Mr. McGEER: Of course, if a crisis should come and we had the plant and we needed it, then of course it has another value.

Mr. BROOKS: It has an enhanced value.

Mr. McGEER: Yes; it has a real value to the country.

Mr. MACNEIL: From which the contractor profits.

Mr. McGEER: Of course, I agree that there are some people who believe that profits should be completely eliminated and there are others who do not think that.

Mr. DOUGLAS: That profit ought to be.

The CHAIRMAN: Are there any other questions to be asked of Mr. Elliott?

Mr. BERCOVITCH: It is a very difficult question.

By Mr. Rickard:

Q. From your viewpoint, what is the real cost of the Bren gun to Canada, Mr. Elliott?—A. I had rather hoped that the members of the committee themselves would make up their minds as to which of these several costs that have been set out would be the correct one.

Mr. GREEN: Some of us have.

The WITNESS: If the chairman has no objection to my giving my view, or if the other members of the committee have no objection, I will answer that question. I imagine that I would regard the cost of these guns to me to be including the items as they are set out on number 1 in the statement, all of those items; that is, including only depreciation on the machinery as part of the cost and not including residuary value that is there. So that would be the first item and that would start us off with \$404.17. Then I would add to that the cost of the profit we have to pay to the contractors; that would be \$267,000. I would then add to that—

By Mr. Factor:

Q. That also would have to be qualified by assuming that that is the amount of profit that will be ultimately paid?—A. Oh, yes; on our estimate that the whole thing is going to be a success.

Q. Yes.—A. Quite so. The mere fact that he might lose out on other contracts still would not touch our question or that he might not make that much profit on this very contract.

Q. That is what I mean.—A. Those are all exigencies that might come into this. But I would there add that profit of \$267,000 as cost. Then I would add the \$15 royalty; then I would add—and I am on doubtful ground now—in item 4, \$42,800, because that is the part of the Ross rifle machinery that we actually use up in making these guns. Those several items, if you add them together and divide by 7,000, would be to me what the real cost of this gun is.

By Mr. McGeer:

Q. Pardon me a second. Would you not have had to deduct from that—on this type of contract which is interlocked with another—the profit which comes to you from the payment for a part of the machinery by the British government?—A. But that is not the question. Your question is: What are the ultimate benefits to the crown? But the question was: What is the cost of making this gun, not profits in other directions; and I would repeat my answer. I think that is correct. You say, even though that be the case, nevertheless we get our capital machinery paid for to the extent of one-third and our tools, dies and jigs, and we get the overhead or rather a larger production basis. Those are benefits in other directions. That is on the 7,000 basis. I will add further to my answer.

Q. Then the amount you get of that profit is how much?—A. I beg your pardon?

Q. The amount that you get on that profit from the British government—that is, the value of the machinery less depreciation which the British government paid for which you own—amounts to how much?—A. Well, let us figure that out. On the machinery Great Britain pays \$369,000. There it is on that first statement I gave you, \$369,333; she also pays one-third of the tools, dies and jigs; that is, \$140,249; and she also pays—that last statement should have been one-third, not two-thirds. She also pays one-third of the \$20,000 preliminary expenses, \$6,667.

By Mr. Brooks:

Q. Should you include that preliminary expenses?—A. Well, she is paying that herself. He is asking about the benefits.

Mr. McGEER: Machinery.

Mr. BERCOVITCH: No, Mr. McGeer.

Mr. MCPHEE: What accrued to Canada.

Mr. McGEER: You can leave that out because you have left that out in your cost statement in No. 1.

Mr. MACNEIL: I was going to say that is provided for in his statement to-day.

Mr. McGEER: Yes. That is provided in the statement to-day.

The WITNESS: Two-thirds is taken in the statement; but the one-third that England pays I have not touched at all yet. It is not in anywhere. We must keep in mind, as I understood your question, what are the benefits coming to Canada. That is the question?

Mr. BERCOVITCH: Yes.

Mr. MCPHEE: \$509,000.

The WITNESS: So I am saying these are some of the benefits; of the preparatory overhead, there is a third, \$41,661. The cost of production, of which she pays five-twelfths, I do not think we should take that in as a benefit because that is her cost of her share of the guns. So those are all the benefits that we can take in, I think. If we add them up, they come to approximately \$576,000. I am taking thousands only.

Mr. BROOKS: Mr. McGeer's question, I think, was: What benefits would accrue to our Canadian government?

Mr. McGEER: As an offset to the cost of the gun.

Mr. BROOKS: Yes, as an offset. I think we are confusing the benefits that would accrue to the Canadian government and adding benefits that would also accrue to the British government because they considered that they have the benefits—

Mr. MACNEIL: They get the guns and a secondary source of supply.

[Mr. C. Fraser Elliott, K.C.]

The WITNESS: Let us define what I meant in answering the question as to the benefits. I think we would take those costs that if England did not pay them, to get our guns made in Canada, we would have to pay. That is what I call a benefit. There is another view to that benefit, namely, what is left with Canada as an asset after the whole thing is over.

Mr. BROOKS: That is what I thought Mr. McGeer meant.

The WITNESS: They would only have, first, 60 per cent of one-third of capital cost of machinery; that is what is left with us; then, depending on whether you regard tools, dies and jigs as having been used up 100 per cent or only 40 per cent—if it is only 40 per cent, we also have left with us an asset of 60 per cent of one-third of the cost of the tools, dies and jigs; and those are the only assets that permanently remain with us as assets.

Mr. BROOKS: That is my point.

The WITNESS: If that is what you mean by benefits, I join with you.

Mr. BROOKS: Yes.

By Mr. Factor:

Q. Mr. Elliott, will you just carry along in a few figures with me, following your evidence? The total of \$3,096,184—A. Where is that figure?

Q. That is contained in statement No. 1 that you provided.—A. Yes, I am with you.

Q. You said that you would add to that \$105,000?—A. Yes.

Q. For the royalties?—A. Yes.

Q. \$42,800 for the value of the Ross rifle machinery?—A. As used up in the contract.

Q. As used up in the contract?—A. Yes.

Q. That makes a total of \$3,243,984?—A. Yes.

Q. Subtracting from that \$576,000 which you just gave us as a benefit to Canada, there is a balance of \$2,667,984.

Mr. DOUGLAS: You cannot withdraw a benefit from costs.

Mr. FACTOR: Just a minute—less the value that is placed on the benefit.

By Mr. Factor:

Q. Dividing that by 7,000 would give you the cost per gun?—A. Well, you will get \$38, approximately.

Q. No, no. I mean divide 7,000 guns into \$2,667,984.—A. I have done that, and that brings it to about \$38—or \$380, I mean.

Q. Yes.—A. I am sorry, I mean \$380.

Q. Yes, \$380.—A. Yes.

Mr. GREEN: We will be getting them for nothing.

Mr. DOUGLAS: That would not be the cost for the gun.

Mr. FACTOR: It is better.

Mr. MCPHEE: No, the cost of the gun to the Canadian government. That would be \$300 and what?

Mr. FACTOR: \$380.

The WITNESS: \$380.

Mr. MACNEIL: That disregards all cost for spare and component parts.

Mr. MCPHEE: We are talking about the gun.

Mr. MACNEIL: The guns are useless without parts.

By Mr. Douglas:

Q. You would not place that as the cost of the gun?—A. No.

Mr. GREEN: Mr. Elliott—

The WITNESS: There is another way of looking at it.

By Mr. Green:

Q. The only item in your statement which you left out in reply to Mr. Rickard's question as to what was the actual cost of the guns was the item covering spare and component parts?—A. Yes.

Q. You know, of course, that they have got to be supplied with each gun?—A. Yes, certainly.

Q. So that if there are to be any spare and component parts, or if there are to be a proper number of spare and component parts, you would say that the actual cost of the guns to Canada is the fifth figure of \$4,550,000?—A. No. I do not think that would be the result of what I said.

Q. Well, you have approved of all the other items except spare and component parts.

Mr. MACNEIL: Up to four.

The WITNESS: I left that out as you well said.

By Mr. McPhee:

Q. What would they be?—A. \$1,307,000.

By Mr. Green:

Q. You left that out?—A. \$1,307,000 for the spare and component parts is left out.

Q. In answer to Mr. Factor?—A. Yes.

Q. In answering Mr. Rickard?—A. In answer to Mr. Rickard I left out that \$1,307,000 spare and component parts.

Q. Taking spare and component parts, which I think we all agree are absolutely necessary to go with the gun.—A. Quite so.

Q. That would mean that in your opinion the actual cost to Canada is the figure shown under 5 of \$4,550,000—\$4,550,984 or \$650.14 per gun?

Mr. McGEER: No. Why do we need to go on asking these questions over and over again?

Mr. GREEN: I did not interfere when you were questioning the witness.

Mr. MACNEIL: We were ready to quit.

Mr. McGEER: You should not have started.

The CHAIRMAN: Order until we get an answer to this question.

The WITNESS: In order to bring the whole question of cost into its proper alignment, some gentlemen of the committee talk of the guns, and I think that is Mr. Rickard's question.

Mr. RICKARD: Yes.

The WITNESS: I think it was: What was the cost of the gun as a working unit in itself?

Mr. RICKARD: I wanted the guns.

The WITNESS: Not the parts that are spare and component in case the guns break down and it is replaced. I would suggest that I can answer it in this way; my answer to that question I repeat—that is to Mr. Rickard's question—as being correct. Now in answer to Mr. Green, if by the word gun, you mean gun plus the spare and component parts, then I answer "yes" to you.

By Mr. MacNeil:

Q. You said before that magazine clips or magazines were regarded as spare parts; the gun could not operate without magazine clips as spares?—A. It has to have magazine clips.

Mr. GREEN: It cannot operate without two barrels.

Mr. FACTOR: It could not operate without ammunition either.

[Mr. C. Fraser Elliott, K.C.]

By Mr. McPhee:

Q. Would it be correct that, on the computation of the cost less the benefits accruing to Canada by virtue of the British contract, the cost of the gun to the Canadian government would be \$380. the Canadian government owning the machinery at \$1,180,000 and the tools, dies and jigs at \$420,000 less whatever depreciation there might be on them?—A. That is a fair way of stating it, from what I know.

I hesitate to submit this next statement, in view of the reception by Mr. Green of my first statement. I should like to have a conference with Mr. Green, if the committee would permit me, and show him this next statement and if he objects I will not put it in. I have no interest in it. It covers the 12,000 guns. We have been talking about the 7,000 guns, and I have prepared a statement on the 12,000 guns.

Mr. MCPHEE: Let us have it.

The WITNESS: I do not care whether it goes in or not. The only suggestion I would make is that we start at the bottom and read up, then you will not catch the small figure at the top.

Having gone over the last statement I think if you study this quietly you will be able to follow it on the same basis and I will not need to read it over.

Mr. MACNEIL: It will go in the record?

Mr. MCPHEE: Is this statement being filed as an exhibit?

Mr. BERCOVITCH: I think it should go in the record.

The CHAIRMAN: Those statements will be filed as exhibits 11 and 12.

By Mr. MacNeil:

Q. This statement does not include the cost of spare and component parts?—A. No.

By Mr. Brooks:

Q. Nor the royalty of \$15 per gun?—A. No; it is just an addition to the statement that was first put in.

By Mr. Douglas:

Q. What is the basic assumption?—A. 12,000.

Q. As if Canada were buying 12,000 instead of 7,000 and paying all the costs?—A. That is right.

By Mr. Bercovitch:

Q. Still being left with the residual value of the machinery?—A. Oh, yes, the residual value of the machinery is still there.

By Mr. MacNeil:

Q. If the cost of spare and component parts were included what would be the estimate?—A. You would have to divide 12,000 into \$1,307,000 which looks mentally about \$11 a gun.

Q. Spare and component parts with the addition of 5,000 guns?—A. Divide 12,000 into the spare and component parts which cost \$1,307,000.

By Mr. Green:

Q. The cost of spare and component parts for 12,000 guns would be more than \$1,307,000 because that is only for 7,000?—A. That is correct, but I am just saying that that was an outlay we were going to make, and I thought the question was if it were related to 12,000.

By Mr. MacNeil:

Q. On the basis of 12,000 guns the cost of spare and component parts would be?—A. I would say it would be proportionately on the basis of what 5 is to 12—5/12 increase.

By Mr. Green:

Q. It works out at about \$186 a gun?—A. Multiply it by 12 and you would have the total cost of spare and component parts.

By Mr. MacNeil:

Q. The ultimate result would be practically the same as No. 5 on your first statement?—A. I would expect that would be the ultimate result.

By Mr. Green:

Q. There really is no difference between this statement and the other one?—A. No, just that there are 12,000 guns being made, and I thought to complete my statement, without leaving anything unsaid relating to the cost of guns, I should put it in.

Q. This is on the basis of Canada getting the whole 12,000?—A. No, on the basis of the factory of the John Inglis Company making the guns, and what is the cost of the gun.

Q. The same objections I raised in connection with the other statement would apply to this statement?—A. The same reasoning that you adopted in the other would apply to this.

By Mr. McPhee:

Q. Referring to your first statement for a second, Mr. Elliott, the capital cost of machinery is \$1,108,000. You have taken off \$443,200 for depreciation. That would leave \$664,800 residual value for that machinery, would it not?—A. You are looking at the second statement, are you not?

Q. Yes, the second statement. I said the first statement, but I was wrong.—A. Yes.

Q. Tools, dies and jigs are shown at \$420,748, and you have taken off \$168,299 for depreciation?—A. That is right.

Q. That leaves a residual value of \$252,449?—A. That is right.

Q. Adding the two residual values, the capital machinery and tools, dies and jigs, you would have \$917,249?—A. That is right.

Q. Divided into 12,000 guns the residual value on each gun is \$76?—A. Well, I have not done the work; I expect that is correct.

Q. That, deducted from \$395—A. As a mathematical calculation, that is correct.

By Mr. Green:

Q. Mr. Elliott, you are doubtful as to whether there should be any depreciation in the case of tools, dies and jigs?—A. That is doubtful. I agree with that.

Q. Or whether—A. The whole 100 per cent should be written off. There are arguments that are good on both sides.

Q. If the machinery is used for ten years, which is the time of the first period of the licence, then the depreciation would be—A. On the basis of 10 per cent per annum.

By Mr. McPhee:

Q. This statement is based on four years?—A. Because we are using it for four years, and if it is not completed then there is a breach.

[Mr. C. Fraser Elliott, K.C.]

By Mr. Brooks:

Q. If this machinery has a residual value, the residual value is for the making of future guns, of course?—A. Of course.

Mr. GOLDING: Not all the machinery; many of those machines which we saw there could be used for other purposes.

Mr. GREEN: Good for boilers.

Mr. GOLDING: That is foolish.

By Mr. Rickard:

Q. Mr. Elliott, in your opinion, should these component parts be added to the cost of the gun in estimating the cost of the gun?—A. They are two separate things, I think, as the language implies.

Q. It is the same as buying an automobile, you can add to the cost of the automobile by buying accessories, but it will run and work without them?—A. I agree with that, but there are other people who think accessories must go in. You can have it either way.

By Mr. MacNeil:

Is it fair to call a magazine a spare and component part? The barrel is an accessory but it is a necessary working part of the gun, is it not?—A. Just analyse your own statement, Mr. MacNeil, "as a necessary working part of the gun." The gun will work but it will not become a working unit without the barrel.

Q. Unless you have a magazine clip?—A. I will certainly say that one magazine clip is certainly essential or the gun will not go off. It has to have that magazine clip in it or it is not a complete gun. But far from attempting to decide that issue between you, you will have to work it out yourselves.

By Mr. Rickard:

Q. You have told us the cost of the gun; what is the total cost to Canada of the gun, have you any idea of that?

The CHAIRMAN: What do you mean, per gun?

Mr. RICKARD: Yes.

The WITNESS: Again we are back to the question of whether you want to include the benefits that we get in that direction from this contract so as to find not the cost of manufacturing the gun but the cost to Canada in the net result.

By Mr. Rickard:

Q. What I want is your idea of what the real cost to Canada will be, taking in all the benefits.—A. I would almost put Mr. Factor in the box, because he worked it out.

Mr. FACTOR: I worked it out on the statement. I took the total of \$3,096,184, which includes the profit added to the first schedule.

The WITNESS: That is right.

Mr. FACTOR: And I added \$105,000 for royalties, then I added the \$42,800 for the value of the Ross rifle machinery, as included in the statement. That gives a total of \$3,243,984. I then subtracted the \$576,000 that you gave us as the benefit to Canada.

The WITNESS: Yes.

Mr. FACTOR: Leaving a balance of \$2,667,984. Dividing that by 7,000 guns gives us \$380 per gun.

Mr. RICKARD: They are making 12,000 guns.

Mr. FACTOR: But when you ask for the cost to Canada you have got to figure the cost of 7,000.

The WITNESS: What you get. I would say that is correct.

Mr. MCPHEE: Mr. Factor, that does not include the residual value of the machinery?

Mr. FACTOR: That is right.

Mr. GREEN: In other words, Mr. Hahn is giving us a Christmas present of the guns.

By Mr. McGeer:

Q. As a matter of fact, Mr. Chairman, what Mr. Rickard asked for, as I understood it, was the net cost of these guns to Canada if due allowance is made for the benefits that we get from the British contract as well as our own. Do you suggest that these figures which Mr. Factor has put on the record are reasonably correct?—A. Oh, yes, they are reasonably correct.

Q. That would show a cost to Canada of how much per gun?

Mr. FACTOR: \$380.

Mr. MCPHEE: And Canada would own the residual value of the machinery—

By Mr. McGeer:

Q. Just a minute. That \$380 per gun compares with the figure given by the minister to the Governor in Council of \$411 a gun?—A. You can compare it, yes.

Q. So that when everything is allowed, the estimate given by the minister to the Governor in Council appears to be considerably more than the guns are actually going to cost the Dominion of Canada, is that not correct?—A. I would say it appears to be a reasonable figure, but, again, you have to calculate how you are going to look at these things.

Q. Yes, but we have got this figure.—A. You could not get a definite answer from me of "Yes" to that, because there are so many ways of looking at it, even as the discussion this morning indicates. It depends on what you take in and leave out. Some gentlemen want to take in 40 per cent of tools, dies and jigs; others want 100 per cent; some think you should take the full cost of the machinery; others think not; therefore, I think it is a matter of opinion, and I would not answer "Yes" or "No" to that question.

By Mr. MacNeil:

Q. You did answer a moment ago that it was known in the department at that time that the cost of spare and component parts would be considerably over \$1,000,000?—A. I did not say "over \$1,000,000." I knew there would have to be spare and component parts.

Q. It was never the intention to buy guns without spare and component parts?—A. Oh, no, that is in the contract.

By Mr. Green:

Q. Have you any other hypothetical statements this morning?—A. Well, if I were not forced to answer hypothetical questions I would say "No" to that.

By Mr. McCann:

Q. What is the cost per gun to Canada, according to the John Inglis Company?—A. Would you mind asking the John Inglis Company that question?

Q. That is what we are paying.—A. That is a John Inglis Company question, if I might suggest.

[Mr. C. Fraser Elliott, K.C.]

Q. It is what the bill will be to this country, not what you figure out here hypothetically.—A. That is true. That is basic. When the thing is done then you will know.

By Mr. Beaubien:

Q. I understood you to say that the figure given by Mr. Factor of \$380 as the cost of a gun is approximately correct?—A. I would say that is a substantially accurate figure.

By Mr. Green:

Q. On Mr. Factor's hypothesis?—A. And preliminary estimates, as has been well pointed out. I am talking about the whole basis. My statement is an estimate as best the experts can arrive at it. The final test will be, "What did it actually cost"?

By Mr. MacNeil:

Q. And we will pay for the spare and component parts?—A. Absolutely.

Mr. DOUGLAS: Mr. Factor suggested a figure of \$380; I asked the witness if that was the actual cost and he said "No."

The WITNESS: Well, you see, I tried to explain that you might either answer "Yes" or "No," depending on how you are figuring it. That discussion arose by Mr. Rickard asking, "What is the cost to make a gun"? Then the next question followed, "What is the net cost to Canada"? Those are two different statements, and Mr. Factor's statement relates to the net cost to Canada, that is, taking in benefits and taking into consideration expenditures.

By Mr. McGeer:

Q. And you accept that?—A. I accept that on that basis. I accept both answers. They are both in their proper sphere and correct.

By Mr. MacNeil:

Q. And the benefits referred to might have accrued if we had established our own factory?—A. I do not think that is possible.

Q. If the British Government placed an order?—A. If they also paid, one-third if the government were doing it.

By Mr. McGeer:

Q. As a matter of fact you had before you very definite evidence that the Canadian government was not prepared to assume the cost of setting up a factory to manufacture 7,000 guns?—A. That was discussed, as I stated at the first meeting of the committee, and the deputy minister told us that he thought the setting up of an arsenal in Canada, in view of this contractual relationship, was not advisable.

By Mr. Green:

Q. In view of which contractual relationships?—A. The potential contractual relations with the John Inglis Company by Canada and by England.

Q. What figure did the Deputy Minister of National Defence give you as the cost of setting up or extending the arsenal to manufacture these guns?—A. I do not remember any definite figure; it was just a reference to a very substantial outlay.

Q. Did you discuss figures at all?—A. I think we did in a general way but I do not recall the amounts of them. I really think at this time my mind is a little confused on that very point or the evidence I have since heard through the reports submitted by other officials in the department to the Davis inquiry. I have heard those figures; I will not repeat them here; but, looking back into the meetings we had, I do not think there was any specific figure like that.

Q. Apparently there was some discussion in the interdepartmental committee meeting about having only one contract instead of having two contracts?

—A. Yes, there was.

Q. Which, after all, would seem to have been a better way than handling it all under one contract; the governments were really working together?—A. Well, the discussion of that, whether it might be the better way or not; I would rather indicate the discussion, and it was that the policy of the government—

Q. Which government?—A. Of the present government, of the present day.

Q. Canadian or British?—A. Canadian, I beg your pardon, the Canadian government—that they would not act as agents for Great Britain nor would they become involved in a contract with them, but they thought that each should be separate, but nevertheless with one contractor. And that policy was in accord, I am told, with the policy laid down when the experts were meeting in London, I think, in 1932 or 1933. So it was a determination of the government. But notwithstanding that, the committee itself was of the opinion that it was advisable not to become involved in a contract that Great Britain was making if all the benefit to be had could be had by separate contracts. Our own committee was of that opinion. And when you ask me, do I think it would be better to have a joint contract, I can only say that the committee thought not, and that the policy of the government indicated the inadvisability of it.

Q. What was the reason for not wanting to have a single contract?—

A. Well, when you get that eternal triangle you have trouble, not only domestically, but contractually; and basically that is the thought that ran through the committee.

Q. Apparently when Canada orders war equipment from Great Britain which is purchased in private factories she orders it through the war office?—

A. I am going by general knowledge in answering that; I think that is true, because England requires it; although I am subject to correction. It really is a question I cannot answer.

Q. Why not?—A. It belongs to the Department of National Defence, a question like that.

Q. The British apparently were pressing Canada to have only the one contract and have the governments work together?—A. Yes.

Q. You see the minutes of your first meeting here, the 5th of January, 1938, on page 2, the minutes say:—

Attention was directed to the proposed agreement (page 2) wherein the government of the United Kingdom is mentioned, and it was thought that an attempt should be made to delete, if possible, all reference in the agreement to the government of the United Kingdom, and/or to the order which the government of the United Kingdom is expected to place with the party of the second part. If any such references are deleted, it would be necessary to make certain that the war office cover the points in any contract which they may enter into.

A. Yes.

Q. It was the deputy minister who suggested that that should be followed?—A. I think it was the consensus of opinion of the committee. Whether he suggested it originally or whether it came up originally as a suggestion of one of the members of the committee I do not remember; but in the result we were all of the view that separate contracts were certainly desirable.

Q. Then, in the minutes of the fourth meeting on March 17th, 1938, it was suggested: "Mr. Bolton also suggested that the British contract be changed in accordance with the above change, but the chairman remarked that the Canadian contract must be kept absolutely separate"?—A. Yes; as I say, that was government policy at that time.

[Mr. C. Fraser Elliott, K.C.]

Q. This is exhibit 189. This is a communication from the war office to the Minister of National Defence dated the 4th of February, 1938. Part of that message says:—

Should be glad if you could confirm officially that a single contract under which Canada would supply guns on an agency basis would not be acceptable to you.

That was in February, 1938?—A. Yes.

Q. And all these messages were before the interdepartmental committee, were they not?—A. The substance of them came in to us, yes.

Q. And then apparently exhibit 190 is the reply from here—who would that be from?—A. I expect from the Deputy Minister of National Defence.

Q. Exhibit 190 is a cablegram from the High Commissioner's office in London to the Department of External Affairs, dated February 3, 1938:—

Your cablegram 26 dated 2 February. At meeting held this morning Sir Harold Browne asked representative this office why Canadian government considers it essential for United Kingdom government to negotiate a separate contract for Bren guns. Browne mentioned he had raised this question on several occasions and has received no answer. Would appreciate cabled reply to-day if possible as second meeting is to be held to-morrow afternoon (4th).

Was that before the committee?—A. I doubt if that telegram was before us.

I don't remember it being so. But I remember the point that we were dealing with in the telegram being before us. The telegram itself I do not remember.

Q. Exhibit 191, which is a cable from the Department of External Affairs to the High Commissioner's office in London, dated February 15th, 1938; confidential;—

Your cablegram 3rd February 29. National Defence state position of Canadian government was made very clear at the Imperial Conference in that government while welcoming complementary orders for supplies from British government would prefer British government to deal direct with Canadian contractors. This would not tend in any way to prejudice relationship between the two governments. At the same time co-operation of the British government in regard to complementary orders would be greatly appreciated.

A. I think we knew about the substance of that. I don't think I remember reading it, but I remember the substance of it.

Q. It is really a question of the policy of the Department of National Defence?—A. Well, it was the policy of the Department of National Defence to follow, I presume, the policy of the government as a whole; and likewise, as I said, the interdepartmental committee felt that a separate contract was the safer way of proceeding, and we finally did draw up separate contracts.

By Mr. Douglas:

Q. Why was it the safer way; would you care to elaborate that? I am not clear on that.—A. The basic idea I am trying to intimate was the eternal triangle; you have three people in a contract and two of them are receiving something from the contractor; perhaps questions of rejections, questions of delivery, questions that might arise in almost any term contract that would have to be harmonized between the two governments before presentation to the contractor, if we were all under one contract. Contrary to that; if we were

under separate contracts we could make our own determinations as to our rights and immediately make them known to the contractor and thereby preclude the necessity of referring to another government. It was a more workable basis.

Mr. GREEN: I suppose it was a part of the policy of no commitments?

The WITNESS: I could not answer that, I do not know.

By Mr. McGeer:

Q. In any event, Mr. Elliott, it did absolve the Canadian government from assuming responsibility of taking delivery from the contractor of 5,000 guns for delivery in turn to the British government; it meant that the British government would take their 5,000 guns themselves from the contractor?—A. Well, you are presuming that even if we had on contract Canada would accept delivery for and on behalf of Great Britain. It all depends on the terms of that single contract. It was just because of such a question as that that we agreed that separate contracts were advisable. I still think so.

By Mr. Green:

Q. In the actual working out of the contracts the two countries are working very close together?—A. Co-operation is always to be desired in complementary orders, but it was a consideration we wanted to get away from. If they wanted to have some claims made and we did not think they should be made they could go ahead and make them. They are independent and we are independent. That is due to the separate contracts.

By Mr. McGeer:

Q. And the basis upon which these negotiations proceeded all the way through was on the assumption that no Canadian contract would be given to this company unless this company first secured a contract, or a declaration that they could get a contract, from the British government for 5,000 guns—A. There would be no contract unless both did contract.

Q. Yes, and it went so far as the interdepartmental committee suggesting that Major Hahn should not be allowed to go to England with a contract for 7,000 guns before he got his contract with the British War Office; that is in the interdepartmental committee's report, isn't it?—A. If it is I don't remember it stating that we would not let Hahn go to England, or that we would restrict him in any way. We did not refer to his actions, we were referring to the terms of the contract. If it is in the interdepartmental committee meeting minutes I do not remember it in the way you have put it. We wanted a separate contract, and we wanted England to have a separate contract, and we wanted them both to be entered into, and if they were not both entered into then certainly Canada would not be entering into one.

Q. Yes?—A. But to say we restrained Hahn from going to England, with or without our contract, I don't think we discussed that that I remember; and I repeat, if it is in the minutes, it is news to me.

Q. Well, you would have had under those circumstances the assurance that the British War Office were satisfied with the terms of the contract and the capacity of this contractor if they gave him a contract?—A. No doubt about that. England had to have a look at the terms of our contract and their own. They had to approve of them both, if they were going to be sound; otherwise, how could we be sure that they would enter into a contract, unless we knew that they were satisfied with conditions as a whole.

Q. What I have in mind, Mr. Elliott, is a matter that we lose sight of sometimes in the evidence— —A. I am following you.

Q. But what we have been trying to get at, as I understand it, is whether or not the manner in which the contract was negotiated was the correct one. As I understand it, the method of negotiating this contract was, as far as the

[Mr. C. Fraser Elliott, K.C.]

Canadian government was concerned, first that Hahn had to secure a contract from the British War Office, second, that the contract which we were entering into had to be approved by the British War Office, and third, that the British War Office would co-operate with us in reducing the cost of Canadian production, that is correct, is it not?—A. That is right.

Q. And furthermore, the Department of National Defence in negotiating this contract had the benefit and assistance and advice of members of the inter-departmental committee which was set up by the government to avoid improper profits or to advise with regard to the control of profits?—A. With the last I agree, I don't quite appreciate the first part of it.

Q. Now, Mr. Elliott, out of your experience as one who had a great deal to do with the administration of war profit tax legislation in the last war, could you suggest to us any other method of negotiating this contract which would have been better?—A. Oh, I think that the method of negotiating this, particularly with a view to the control of results, which really are the things that count, that everything is most satisfactory, that the committee built for the best.

By Mr. Green:

Q. Do you include taking up special features?—A. I am only including in that remark from the time we met the contract until we finally passed it.

Q. You have no comment to make prior to 1938?—A. No.

MR. BEAUBIEN: In other words, you were looking for results?

THE WITNESS: From the time we first met it until we concluded it, yes.

MR. McGEER: Now, Mr. Elliott, what I wanted to get at is this: When you speak of results, the matter that brought up all this discussion as to estimates of the cost of the gun; the cost of the gun and component parts; cost of the gun and component parts and machinery; etc., that we have gone over this morning; that all arises out of the report, namely exhibit 245, the Minister of National Defence to the Governor in Council. I just want to read that again:—

The estimated cost of machinery, equipment, tools, etc., which would remain the property of the crown, is \$1,102,482; the estimated total unit production cost to the department is \$411.91, or 7,000 by \$411.91—\$2,883,370.

Now, taking all the figures that we are now able to deal with from the information we have at the present time, and taking Mr. Factor's basis of calculating the net cost to Canada of the gun as far as we can estimate it at the present time as being correct, namely, \$380, the estimate of the Department of National Defence to the government was \$31.91 greater?

MR. DOUGLAS: The figure you read was the total unit cost, he did not say the net cost, did he?

MR. McGEER: He said the total unit cost.

MR. MACNEIL: No, the total unit production cost.

MR. McGEER: It is right in here. (Exhibit 245.)

MR. DOUGLAS: What I want to point out is that the two statements are not comparable.

MR. BROOKS: Did the minister include spare and component parts?

MR. McGEER: No. What I am dealing with is the figures in the report of the total estimated cost per unit—the unit production cost of the gun, which certainly does not include machinery or spare and component parts. Now, as I say, when the minister comes before the committee he can explain to us what that exactly meant, and what it was given to the Governor in Council as. But for the purpose of cleaning up this situation as far as we have gone, taking

Mr. Factor's figure as the net cost to Canada of the gun, allowing for the benefits that come out of the whole contractual relationship, the estimate of the minister is \$31.91 higher than what the report gave as the unit cost of the gun.

Mr. DOUGLAS: On the basis of the figure you mentioned in the first statement you put there it is \$24.04 higher than the statement given by the minister.

Mr. McGEER: What the minister is saying is, "there are several other items that are included." On the basis of the figure given by Mr. Factor, the unit gun cost of production as given by the minister to the government is \$31.91 higher, allowing for the benefits we get; that is correct, is it not, Mr. Elliott?

The WITNESS: On the interpretation that you gave, that the net cost to Canada of the gun is as Mr. Factor worked it out, then the figure given by the minister to the government is \$31.90 higher.

Mr. GREEN: You and Mr. Factor may be right there, some of us are not so sure of that.

Mr. McGEER: I understand Mr. Elliott to say that he accepts Mr. Factor's basis of calculating.

Mr. DOUGLAS: No, no—

Mr. McGEER: Would you mind leaving it to Mr. Elliott to say as to that? You have no right to answer for the witness.

Mr. DOUGLAS: It is pretty difficult to determine that fact.

Mr. McGEER: The minute I ask the witness a question you say, Oh, no; what I put to Mr. Elliott is this: we were trying to get at the net cost to Canada after allowing for all the benefits which come to us by the contract, and Mr. Factor figures that out at \$380, which I understand Mr. Elliott agrees with.

The WITNESS: I agree with that, there is no doubt of that.

By Mr. Douglas:

Q. Do I understand, Mr. Elliott, that you say that you agree with the figures given by Mr. Factor as the conclusion he arrived at from his calculation, do you accept his method of calculating that amount?—A. Naturally, if I accept the result I accept all that goes before it. His figure is all right. But the real point is here in connection with this report by the minister to the Governor in Council in which it is stated that the total unit production cost now to the department is \$411.91 per gun. Now, the unit production cost is the phrase that we have to consider. That means the net cost to the government after taking in all the benefits, as Mr. Factor worked it out; then the minister's figure is \$31.90 higher. If it means the cost of making a gun, as was asked previously, then it would be the figure that I referred to in answering Mr. Rickard. So it is all a matter of how you interpret that phrase, and I cannot interpret it. Whoever wrote the document knows what he meant and perhaps should be the person to ask.

Mr. FACTOR: Mr. Chairman, let us clear this thing up. I took Mr. Elliott's figure. Mr. Rickard asked him what the net cost to Canada per gun would be, and Mr. Elliott said, "If you want my opinion I will take the following figures into consideration." He took the figure of \$2,829,184, and he said he would add the profits to it of \$267,000, and then he said he would add \$105,000 for royalties and \$42,800 as the value of the Ross rifle equipment. Now, we added those figures together and he proceeded with his evidence and calculated in dollars and cents the amount of benefit accruing to Canada because of the contractual relationship, amounting to \$576,000. I did not interpret those figures, I merely took Mr. Elliott's figures and added them together. By subtracting \$576,000 it left a net figure of \$2,667,000.

The WITNESS: I agree with those figures.

[Mr. C. Fraser Elliott, K.C.]

By Mr. Factor:

Q. Yes, you agree with those figures?—A. Sure, and I agree with the answer I gave to Mr. Rickard. There are just two ways of looking at the problem, that is all.

By Mr. McGeer:

Q. Mr. Elliott, there is one other matter which has been brought up. It has been stated that apparently there was a conspiracy between the Department of National Defence and the John Inglis Company to include the incentive clause as a loophole for other profits over and above the \$267,000. As I read the interdepartmental committee's report of March 17, which was before the Davis commission as exhibit 63, it states, "The chairman (that is the Deputy Minister of National Defence) stated his reason for asking that such an incentive clause be not included in this contract." You do recall that that incentive clause was included against the wish of the Deputy Minister of National Defence?—A. That is correct.

Q. So there could be no suggestion of a conspiracy between the department and the John Inglis Company to have that included as a means of permitting profits greater than those which were fixed in the over-riding limit of \$267,000?—A. The deputy minister was against its inclusion in the contract.

Q. It was in the contract, as I understand it, of the British government, and the members of the sub-committee of the interdepartmental committee after seeing it in the British contract recommended its inclusion to the interdepartmental committee?—A. That is right.

Q. And all the members of the interdepartmental committee agreed, with the exception of the chairman, the Deputy Minister of National Defence?—A. And Mr. Burns, the comptroller of contracts.

Q. He was also of the Department of National Defence?—A. He was a member of the committee.

Q. But Mr. Burns and Mr. La Fleche came from the Department of National Defence?—A. Oh, yes, quite so.

Q. So that both members of the committee from the Department of National Defence opposed the inclusion of the incentive clause?—A. That is correct.

Q. On the ground that it was unnecessary, they having full control of cost of operation?—A. Yes, and they were apprehensive that the profit might go up.

Mr. McGEER: We have had some discussion, Mr. Chairman, on certain letters, and I think that they should be put on the record. With the committee's permission I should like to read exhibit 227, which is a letter dated 11th February, 1938, from Sir Harold Brown. As a matter of fact, if the committee will agree, there is no need of my reading exhibit 227 and exhibit 230, if they can be placed in the record.

Mr. DOUGLAS: Agreed.

EXHIBIT 227

11th February, 1938.

Bren Gun

Dear COLONEL LA FLECHE,—During the past few days we have had some long discussions with Major Hahn, in which we have been greatly assisted by the excellent way in which the two draft contracts had been drawn up. They have been discussed clause by clause, and some minor amendments, intended to make the intentions of the parties more clear, have been agreed with Hahn, and also one amendment of some importance. I cabled this information to you through Canada House, on the 9th instant and I now enclose a list of the amendments.

The amendment which I describe as important should cause you no difficulty with your committee as it is in favour of the two governments. It relates to clause 17 (b) under which the John Inglis Co. is to get certain compensation if the government breaks the contract for political reasons or other reasons of the same kind. In the original draft the company was to receive their full profit on the full number of guns even if the contract was terminated after they had produced only 50, or any other number. Under the amendment they would receive an amount which will vary according to the stage of production reached at the time of the break. This is fair and has been agreed by Hahn.

The exact position is that this scheme has now got to go back to our treasury for final approval, and as you are aware, the point that caused difficulty before was its cost. The revised figures produced by Hahn reduce the cost partly through the provision by your government of the Ross equipment, but, as I indicated in my personal cable to you of the 9th, I am under obligation to approach you on a point which will further reduce the cost to us if you can meet us on it.

This point relates to the share which the British government should pay of the initial cost of the plant. The calculations of the estimated all-in cost of the gun (including amortization of the plant) assume that we shall pay to Canada five-twelfths of the capital charge of \$1,653,722, on the basis of our order being for 5,000 guns and Canada's order being for 7,000 guns and I fear that I may have some difficulty in securing financial agreement of this proportion. The point is that allocation on the basis of *guns* only is not entirely logical, because of the following considerations:—

- (a) the whole plant will become the property of the Canadian government who will thus possess a plant which must have a considerable residual value;
- (b) in addition to the 12,000 guns a considerable production of spare parts will be essential for maintenance and reserve purposes. As far as we are concerned we shall get such spare parts from Enfield since that plant will be available by the time that the Inglis plant is starting. Canada, on the other hand, will no doubt get her spare parts from the Inglis plant; and, whether or not such spare parts are contemplated now, it is quite certain that you will have to provide them at some date. It is estimated that the value of the spare parts required by the British army, for each gun is about equal to the value of the gun itself; and, therefore, even if you provide spares on a smaller scale than we do here, the production by the Inglis Co. in spare parts is likely to be considerable.

[Mr. C. Fraser Elliott, K.C.]

For these reasons we think that a fair split of the initial capital costs for plant would be one-third to the British government and two-thirds to the Canadian government; and, if you see your way to accept this, I think that there would be no further hesitation about the scheme on this side.

I must apologize for the length of this letter; but there are two other points on which we must be clear. The first is the procedure for concluding the contract with the John Inglis Company. When we receive the final approval we should propose to sign a copy of the contract and send it to you to be handed to the Company, together with your contract. The Company will have to sign duplicate copies and you will send a copy of each contract, signed by the company, to us. I hope this will suit your convenience.

The second point is that we want to know exactly what arrangements the Canadian government is making regarding the checking of the costs of production and the accounts generally. For the purpose of making progress payments we should expect to receive bills certified as correct by your ministry, and for the purpose of final adjustment on each batch of equipments, we should look to your department to certify that the equipments have been accepted by your inspecting officers.

Yours sincerely,

(Sgd.) H. A. BROWN.

Lt. Colonel L. R. LaFleche, D.S.O.

EXHIBIT 230

War Office,
Whitehall,
S.W. 1.

16th February, 1938.

*Personal and
Confidential*

Dear COLONEL LAFLECHE,

Very many thanks for your letter of the 31st January and for your cables, &c., regarding the Bren gun position, which I hope is now all clear. I shall hope to hear from you very shortly to this effect. I quite appreciate your position in this matter and I hope my replies to your cables have met requirements.

I might add that we found Major Hahn most helpful and am full of admiration for the business-like way he has gone into the proposition and for the drafting of the proposed contracts.

I hope you did not think some of our enquiries rather meticulous, since they were all subjects we had already discussed, but I dare say you would understand that they were matters on which it would be necessary to inform the treasury definitely. I gather from Colonel Loggie, who also has been most helpful, that you think you may be able to comply with our suggestion as regards the capital cost of the plant. This would be of material advantage so far as getting through our financial authority. I need not tell you, of course, that it is of vital importance to get it through as soon as possible.

I am extremely obliged to you for the very kind remarks in the last paragraph of your letter and to know that this appointment at least does not fill you with the gloom that it does me!

With kind regards, and all good wishes.

Yours sincerely,

(Sgd.) H. A. BROWN.

Lieut. Colonel L. R. LaFleche, D.S.O.,
Office of the Deputy Minister,
Ottawa,
Canada.

The WITNESS: I take it that I will not be required as a witness again, and therefore my functions as a witness are at an end.

Mr. MacNEIL: We appreciate your patience.

The WITNESS: That is my first statement. I appreciate immensely the many courtesies and kind consideration of the members of the committee, and while you have had your own controversies you have very kindly not transferred them onto my shoulders in any way.

The reason I am asking for these few minutes is this: The interdepartmental committee in dealing with this contract, as you know rather in detail, felt that they had performed a function that, well, that was entirely satisfactory; and when this article in *Macleans* came up we were not in any way regarded as derelict in our duty nor charged with any offence; and yet though we were not charged, and though we had no counsel, and though we gave no evidence, and though we thought that there was going to be no adverse comment against us, yet on page 41 we found that the committee failed to do something, there was an omission there; and realizing—

Mr. MacNEIL: What are your reading from, the Davis report?

The WITNESS: Yes. —and realizing that you gentlemen are also going to make a report I want on behalf of the interdepartmental committee—although doing it myself—I would like to indicate that we would not like to be caught with no charge, no counsel, no argument, and have a finding again against the committee. We find that judicially that is a most extraordinary situation. And I only hope that, speaking on behalf of the committee, there will not be found any delinquencies in their work; and if it be possible by interpretation of the evidence which is here recorded and the comments made around this table and which I think will be in the evidence, that no fault has been found with the committee, it will find reflection in the written report; or that which is now recorded in writing will again be recorded in the report. That is said on behalf of the committee.

The CHAIRMAN: Gentlemen, I believe I express the feelings of the committee and of every member of the committee in extending to Mr. Elliott our thanks and our appreciation for the very able manner in which he has presented his evidence.

Gentlemen, I presume it is the wish of the committee to meet as many times this week as possible, and I presume also that we will follow the plan that was agreed to by the steering committee, that we call Major Hahn as the next witness.

Mr. McGEER: I thought we were going to call the accountant.

Mr. DOUGLAS: Yes.

Mr. McGEER: And then Mr. Jolley, on these details that we have gone through.

The CHAIRMAN: Then we will proceed apparently with Mr. Sellar and Mr. Jolley.

Mr. GREEN: Perhaps the steering committee should have a meeting and discuss that.

Mr. MacNEIL: I want to remind you of the understanding which was reached that we would not call Major Hahn until we had heard General LaFleche. We did not have General LaFleche earlier because at the particular time we wanted to have him he was busy.

The CHAIRMAN: The reason I am mentioning this now is that the Defence estimates will probably be up any day this week.

Mr. GREEN: We had better have a meeting of the steering committee.

[Mr. C. Fraser Elliott, K.C.]

The CHAIRMAN: Well then, will the members of that committee meet me in the office of the clerk at 9 o'clock this evening?

SOME HON. MEMBERS: Agreed.

The CHAIRMAN: I think we had better call a meeting for to-morrow morning at 11 o'clock.

The committee adjourned at 1.07 o'clock p.m. this day to meet again on Wednesday, May 3rd, 1939, at 11 o'clock a.m.

APPENDIX "A"

BREN GUN COSTS

Statement showing the various factors usable in calculating the per gun cost

Outlay	Totals		Canada's costs
Preliminary expense..	\$ 20,000	2/3rds	\$ 13,333
Machinery..	1,108,000	40% or 4 years deprec. on	738,666
Preparatory overhead	124,984	2/3rds	83,323
Tools, dies, jigs, etc... . . .	420,749	40% or 4 years deprec. on	280,499
Production costs..	3,985,477	7/12ths	2,324,861
	<hr/>		<hr/>
	\$5,659,210		\$2,829,184

1. Cost of 7,000 guns, \$404.17 per gun.

When the limited profit of \$267,000 to the contractor is added the cost would then be \$3,096,184.

2. Cost of 7,000 guns, including contractor's profit, \$442.31 per gun.

When the cost of spare and component parts amounting to \$1,307,000 is added the cost would then be \$4,403,184.

3. Or cost of 7,000 guns, contractor's profit and spare and component parts, \$629.02 per gun.

When the royalty of \$15 per gun is added \$105,000 the cost would be \$4,508,184.

4. Or cost of 7,000 guns, contractor's profit, spare and component parts plus royalty, \$644.02 per gun.

When the value of Ross rifle machinery is included at to-day's stated value of \$107,000 the depreciation thereon for 4 years at 10 per cent per annum or \$42,800 would require to be included in which event the total cost would be \$4,550,984

5. Or \$650.14 per gun.

When the value of the Ross rifle machinery is included at book value said to be \$209,000 the depreciation for 4 years at 10 per cent thereon or \$83,600 would require to be added to \$4,508,184 in which event the total cost would be \$4,591,784

6. Or \$655.97 per gun.

APPENDIX "B"

BREN GUN COSTS

12,000 guns

Statement showing the various factors usable in calculating the per gun cost

			Costs
Preliminary expense..	\$ 20,000		\$ 20,000
Capital machinery..	1,108,000	40% depreciation=	443,200
Preparatory overhead..	124,985		124,985
Tools, dies, jigs, etc...	420,748	40% depreciation=	168,299
Production costs, guns..	3,985,477		3,985,477

1. \$4,741,961=\$395.16 per gun.

When the contractor's limited profit of \$450,000 is added the cost would then be

2. \$5,191,961=\$432.66 per gun.

When the depreciation on Ross rifle machinery at the stated value of \$107,000 for 4 years at 10 per cent or \$42,800 is added the cost would then be

3. \$5,234,761=\$436.23 per gun.

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Canada - Public Accounts, Standing Committee

14

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 14



WEDNESDAY, MAY 3, 1939

WITNESS:

Watson Sellar, Esq., Comptroller of the Treasury,
Department of Finance

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, May 3, 1939

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Anderson, Beaubien, Bercovitch, Brooks, Brown, Ferland, Fleming, Fraser, Golding, Green, Héon, Homuth, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McPhee, Patterson, Purdy, Rickard, Slaght, Stewart, Thauvette.

In attendance: Mr. Watson Sellar, Comptroller of the Treasury, Department of Finance; Lieut.-Colonel D. E. Dewar, Department of National Defence; Lieut. M. P. Jolley, Department of National Defence.

Mr. Sellar was called, heard and questioned.

Exhibit No. 13: Mr. Sellar filed "Statement of Expenditures as at April 29, 1939, related to the production of Bren Machine Guns, Canadian Contract".

Ordered,—That Exhibit No. 13 be printed as an appendix to this day's minutes of evidence.

Mr. Sellar was requested to prepare a statement showing the details of expenditures included in certain items in Exhibit No. 13.

The Committee adjourned until Thursday, May 4, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

May 3, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Order, gentlemen; it is now 11.28 o'clock, and as we have a quorum we will proceed.

Mr. Sellar is here this morning and I will ask him to take the stand as our first witness.

WATSON SELLAR, Comptroller of the Treasury, called.

The CHAIRMAN: Has any hon. member any suggestion to make as to how Mr. Sellar should proceed; or, do you just want to ask him questions?

Mr. MACNEIL: Perhaps it would be desirable for him to explain to us the method of supervision of accounting with regard to this contract.

The WITNESS: This, gentlemen, is a cost-plus contract. In the ordinary work of the treasury division we do not see the transactions until they are ready for payment, but being a cost-plus contract we are in on the work. We keep a man in Toronto for this contract. There is one man full time on it, and he works under the direction of an officer in Toronto, so that there are really two men in on it.

The company each month, as is provided by the contract, submits a claim under the agreement. That claim is presented by it, generally signed by the secretary of the company, and it carries a short certificate in writing to this effect: "Certified correct, and is in accordance with contract agreement; and that any special authority required for items in this claim are available in our records." This progress claim is set out under the various item heads and is given to the representative of the Department of National Defence in the plant who examines the claim and satisfies himself as to the technical side; that is, that the work has been done, and that it is in accordance with the agreement, and so on. He then puts on a general certificate for our guidance to that effect, and he makes notes also of things he wants us to investigate. Our man then picks it up and examines against the work records of the company, and our men satisfy themselves that the account is in order so far as the Toronto picture is concerned. The account is then transmitted by the National Defence department representative to his superior officers in Ottawa who examine the accounts. They may bring in our treasury office to go over it and deal with matters which are indicated. They consider any comments that we have to make, or that any departmental officer has to make, and then recommend for payment or pass for payment such amount as they are prepared to admit. Then it comes to us officially. We have to reconcile it with the contract terms, and with any instructions that we have from the Minister of Finance; and when everything is in order we then pay.

By Mr. MacNeil:

Q. Who has final authority?—A. For payment?

Q. Yes.—A. We have final responsibility, because the Consolidated Revenue and Audit Act provides that it is my duty to object to any payment if it is in excess of the power granted by the Governor in Council. In this case

the contract was made under the authority of the Governor in Council, and I have to satisfy myself as to that. If the department disagrees with me, they have the right to appeal to the treasury board and the treasury board has the final decision.

By Mr. Bercovitch:

Q. When you speak of the department, which department do you mean?

—A. The Department of National Defence.

Q. The Department of National Defence?—A. Yes.

By Mr. Homuth:

Q. When you receive at the end of every month, or whatever date you do receive them, accounts from Toronto— —A. Yes.

Q. You say there is a certificate attached to them from the government representative in the plant?—A. That is the John Inglis Company?

Q. Yes.—A. It is from the government representative in the plant.

Q. He certifies as to the correctness and so on of the account?—A. Yes.

Q. Then after you have passed on it a cheque is issued to the John Inglis Company for 90 per cent?

Mr. BERCOVITCH: It has got to go through the regular procedure.

Mr. HOMUTH: Quite.

By Mr. Homuth:

Q. After you have satisfied yourself it is all right, that is what happens?—

A. 100 per cent at the moment.

Q. 100 per cent?—A. Yes. 90 per cent comes into effect after they get into the manufacturing stage.

Q. So at the present time you are paying 100 per cent?—A. Precisely.

Q. On whatever accounts you certify?—A. Yes. That is, we are talking in terms of the Canadian contract where it is two-thirds us and one-third British.

Q. Quite; and you pay the full 100 per cent?—A. Yes.

Q. But the British payments are made by the British government?—A. No, by us.

Q. They are made by you?—A. Yes. We act as their agents.

Q. So we pay 100 per cent of the two-thirds of Canada and 100 per cent of the one-third of the British?—A. Correct.

Q. Then we in turn bill the British government for that?—A. Precisely, sir.

Q. Then 100 per cent is paid during the whole preparatory period?—A. As I understand the contract, yes.

Q. Is that set out in the contract?—A. Yes.

Q. That they pay 100 per cent?—A. Yes. There is no provision for any hold back. The contract provides that at the end of each month we shall pay our two-thirds and the British contract provides for their paying their one-third. The hold back is later on when they come to manufacturing.

Q. In the submission of their expenditures—those expenditures to date in the preparatory period, for the manufacture of tools and dies and renovating the machinery from the Ross Rifle Company and so on—when they submit their accounts, they also add to that, I would take it, their 10 per cent profit?—A. On the items that they are allowed, yes.

Q. Then on everything that is allowed the government issues a cheque to them for 100 per cent?—A. Yes.

By Mr. Green:

Q. Some of the costs to which the John Inglis Company have been put have to do with their commercial division as distinguished from the Bren gun division. Who was it that decided what proportion should be paid by the government

[Mr. Watson Sellars.]

and what proportion by the John Inglis Company?—A. The Department of National Defence did. I cannot tell you who it was. I assume it was the deputy minister, but I do not speak with definite knowledge. It was the officers of the Department of National Defence, and they tentatively arranged or agreed on a two-thirds and one-third basis; but that is subject to adjustment, and the understanding is so. The fiscal year of the company is just ended. Our intention is to examine their accounts on their fiscal year basis and see whether the 66⅔ is reasonable or otherwise.

Q. You or your department would have the right to alter that split, would you not?—A. I take for granted that we would. I know the department would expect us to challenge it if we saw anything wrong.

Q. We were told by Major Hahn at the plant that the commercial division was equal in importance to the Bren gun division.

Mr. BERCOVITCH: That is not part of the evidence in any way. I object to that, Mr. Chairman. That is not part of the evidence at all, whatever Mr. Green was told by Major Hahn.

Mr. GREEN: We were all told that. I was not the only one.

Mr. BERCOVITCH: I was not told.

Mr. GREEN: You were there too.

Mr. BERCOVITCH: I was there, but I was not told by Major Hahn or by anyone else anything pertaining to the cost of the plant or anything regarding expenditures.

Mr. GREEN: You were told about the importance of the commercial division.

Mr. BERCOVITCH: I was told about there being a commercial division. I saw it myself. But anything that transpired there, we decided beforehand, would not form part of the evidence; so I do not think it should go into this record.

Mr. MACNEIL: I also heard Major Hahn make that statement.

Mr. BERCOVITCH: I am not suggesting for a moment that he did not make it. I want Mr. Green to understand that.

Mr. GREEN: It is a matter of saving the country that much money. This is the official who is in charge of it. I am simply suggesting to him that he investigate this item, having in mind what Major Hahn told me.

Mr. BERCOVITCH: You may be perfectly right. I am not suggesting or casting the slightest doubt on what you say. But I say it is the wrong way to proceed. After all, we must have something on the record which is official.

By Mr. Homuth:

Q. Mr. Sellar, we were given a list of the machinery that had been purchased up to a certain date—I do not know just what the date was—amounting in all to \$790,470.22.

Mr. MACNEIL: Could we have that verified?

Mr. HOMUTH: I beg your pardon?

Mr. MACNEIL: Are you referring to that statement?

Mr. HOMUTH: The machinery.

Mr. BERCOVITCH: Have you the page?

Mr. HOMUTH: It is a statement that was given to the committee of the machinery purchased and the total at that time was \$790,000.

By Mr. Homuth:

Q. Have you knowledge of further purchases since that list was given to us?—A. When would that be dated?

Q. There is no date on this?—A. There have been certain small purchases since that I know of, but we have not come to payment yet.

Mr. MACNEIL: I think we should refer the witness to pages 98 and 99 of the evidence.

By Mr. Homuth:

Q. It is on page 221 of the evidence that was given to us on April 18.—A. To the best of my knowledge, there have been no additional purchases since then. There have been no orders in council that have come to me.

Q. So that there might have been purchases of which you would not have knowledge?—A. No.

Mr. BERCOVITCH: The witness says he does not know.

Mr. HOMUTH: No.

Mr. BERCOVITCH: What good will it do to say there might have been some? It does not help the situation any.

Mr. HOMUTH: Oh well, there have been purchases since then.

Mr. BERCOVITCH: There may have been. We have the witness who will say so.

By Hon. Mr. Stewart:

Q. Mr. Chairman, I should like to revert to the matter that was raised as to the apportionment, on the basis of the commercial and the arms branch being of equal importance and the statement of Mr. Hahn; we will not deal with the statement of Mr. Hahn. But might we ask Mr. Sellar if he knows upon what basis the division is being made at the present time?—A. It is on a $66\frac{2}{3}$ basis for the Bren gun and one-third for the commercial.

By Mr. Bercovitch:

Q. That is tentative?—A. Tentative. It is subject to adjustment, which is mutually understood.

Q. Right.

By Mr. Brooks:

Q. I was going to say that the British government was dependent entirely upon the accountancy of the Canadian government or the Canadian department?—A. So far as accounting is concerned, I can speak about that. Yes, they are relying on us entirely. As to the technical side, I have no knowledge.

Mr. BERCOVITCH: And they are justified in doing so.

By Mr. Green:

Q. And you are making all the payments both for the Canadian government and the British government?—A. Yes, sir.

Q. Is that to continue when it comes to the production period?—A. Well, the arrangement is general; but of course they can change it, if they are dissatisfied with us, at any time.

Q. So far as you know at the present time, the plan is to have the Canadian government make the payments all the way through?—A. I think so.

Q. And to collect from the British government?—A. We set up our accounts on that basis; but if the British authorities do not like us they can change, of course.

By Mr. Bercovitch:

Q. They have not complained yet?—A. No.

Q. And I know they will not.—A. Thank you.

[Mr. Watson Sellar.]

By Mr. Green:

Q. Who decided on the split in Major Hahn's salary as between the Bren gun division and the commercial division?—A. Well, that is a difficult question for me to answer, because I have never got any claim for Major Hahn's salary.

By Mr. MacNeil:

Q. How is the claim presented for salary?—A. The claim lists the individuals; but we have made no payment on account of the salary for Major Hahn.

By Mr. Green:

Q. Have you had the statement yet as to what the proportion is to be?—A. I have read it in your proceedings, and I imagine it is on the record. But as we never had a claim to pay, I did not bother verifying it.

Mr. BERCOVITCH: You are quite right.

Mr. GREEN: Oh, it will be paid. You do not need to worry about that.

Mr. BERCOVITCH: If he is entitled to be paid, of course it will be paid.

By Mr. Homuth:

Q. The salary is approved by the department; that is, it is approved by the Department of National Defence, is it?—A. Yes.

Q. They would give approval as to the division of the salary?—A. Yes.

By Mr. Green:

Q. But you have the right also to vary that?—A. I doubt it. I think the discretion is with the department. If I thought it was unreasonable I could report it to my minister, but I do not think I have any authority. Discretion by the contract is given to the department to decide such matters.

By Mr. MacNeil:

Q. Are you familiar with the statement which appears on page 99 of the evidence of this committee?—A. That is that statement showing the expenditure of \$91,000? Is that the one you refer to?

Q. There is an item there for salaries and wages. Would that item include any portion of the general overhead of the John Inglis Company?—A. No. That is our national defence staff that are on that job, that are not regular salaried people, but are hired for this job.

Q. Have any payments been made in respect of the general overhead for salaries?—A. Well, we have paid under what you call the "indirect salaries"; that is, we have paid for salaries under section 5 (c) and (f), and we have also paid for wages and salaries in connection with the making of dies and jigs.

Q. That would not include officers of the John Inglis Company?—A. Well, it depends on what you call officers. The plant manager, for example is in it; the plant superintendent is in it and a long range of salaried officers.

Q. The president?—A. No.

Q. The secretary?—A. To my recollection, no.

Q. Or the vice-president?—A. I am sorry I do not know them by name.

By Mr. Homuth:

Q. Mr. Sellar, I want to follow up what Mr. MacNeil has been saying. When they send in their list of charges for the various work they are doing in the commercial end of the plant and on which we are paying 100 per cent—

Mr. BERCOVITCH: No, excuse me; that is not what the witness said. We are not paying 100 per cent on the commercial end at all.

Mr. HOMUTH: We are paying 100 per cent of the work they are doing on the Bren gun.

Mr. BERCOVITCH: For the Bren gun?

Mr. HOMUTH: Absolutely.

Mr. BERCOVITCH: Yes, all right. But that is not what you said.

Mr. HOMUTH: That is what I said. We are paying 100 per cent.

Mr. GREEN: I think he means for the work done for the Bren gun division in the commercial division.

Mr. BERCOVITCH: That is all right, if that is what he means.

Mr. HOMUTH: Certainly.

By Mr. Homuth:

Q. In figuring out the cost, do they give you the details of the cost of the various operations or do they simply say a die or a tool, so much? And in that would you have any reason to believe that they have not added their overhead in that cost?—A. No. First of all, we get a summarized statement which is prepared at our request. They complete forms we submit to them. Then they give us their full working records—and they have never denied us access to anything—and we verify it from their general records.

Q. Quite. But in the cost of that work, they would add their overhead?—

A. No. We just have the actual cost incurred. Their overhead comes under the 10 per cent or the depreciation item.

Mr. BERCOVITCH: The fishing is bad.

By Mr. Brooks:

Q. Their overhead would be included in that?—A. I may be misunderstanding you. But they are allowed to claim the cost of the materials, the cost of charges that actually go into the making of these tools and jigs and so on. Then they are entitled to claim for insurance, taxes, light and water, municipal rates and so on; and then there is a general depreciation item. Then, on top of that, they are entitled to claim 10 per cent.

By Mr. Homuth:

Q. Quite. So that their water and insurance and all those other things that are usually considered as overhead in industry—A. Yes.

Q. —are added to that; and then they are entitled to 10 per cent on top of that?—A. Yes.

Q. Yes.—A. But after allowing the set off for the company's business, I mean.

Q. Quite.

By Mr. Brooks:

Q. Are all those items included in this form you speak of that they have to fill in?—A. Yes.

Q. Have you got a copy of the form there?—A. I can give you the form or I can give you the expenditures that have come under the various sections of the thing, if you prefer it. I have only got one copy of the printed form; but these are the expenditures we have made.

By Mr. MacNeil:

Q. Could we also have the figures?—A. They are in there. I might say that two dates appear in there, because I was trying to keep up to date with the committee; but there was no change on the date in April when I made up the second statement of it.

[Mr. Watson Sellar.]

Q. Perhaps we would understand the procedure a little more clearly if you referred to a specific operation. We were given to understand that they were overhauling the Ross rifle machinery in the commercial division.—A. Yes.

Q. With regard to that operation, could you enumerate the numerous factors that are properly accepted by your branch?—A. I have only got that in a summarized form. I have not got it broken down. In connection with the reconditioning of the Ross rifle machinery and generally fixing it up, we have dispersed approximately \$12,000 for labour in connection with that, and approximately \$3,000 for material, making a total of \$14,700 or \$14,800 in round figures.

Q. What about shipping charges?—A. The shipping charges were treated departmentally; and, as a matter of fact, the British government is sharing those shipping charges.

By Mr. Bercovitch:

Q. I take it, Mr. Sellar, that for all purchases made of machinery or other things by the John Inglis Company you insist upon having vouchers, do you?—A. Yes. Well, the John Inglis Company has bought relatively little of the machinery. We bought most of it direct. But anything we get through the John Inglis Company has to be by voucher.

By Mr. Green:

Q. In the statement of the items listed here, the item of machinery comprises the machinery bought by the government itself?—A. By the Canadian government.

Q. You have no idea how much is outstanding of other machinery?—A. Well, we have got commitments registered of about, roughly, \$700,000.

Q. In addition to this \$124,000?—A. No; and against that you have got this amount off, plus the share that has been charged up to the British government. But this covers everything we had paid out up to the closing of our books for the month.

By Mr. MacNeil:

Q. With regard to their conditioning of the Ross rifle machinery, do they charge any such items as advisory and supervisory cost or salaries of executive officers?—A. I have not got this broken back into that total. As you notice there, we have paid out \$42,000 in connection with that. That comes in under that indirect labour.

Q. That also applies to the Ross rifle machinery?—A. Well, I assume it does. I have not tried to break it back into that.

Q. And they get 10 per cent on that?—A. On that, yes.

By Mr. Homuth:

Q. Mr. Sellar, you have here in this detailed list of distribution of expenditure, "wages for indirect labor (clerical, advisory and supervisory) including salaries of executive officers of firms"?—A. Yes.

Q. "Technical advisers and engineering assistance, specially furnished by others"?—A. Yes.

Q. Then you have "repairs and maintenance of machinery and plant equipment; insurance; light, heat power and gas; telephones, telegraph, postage and excise stamps; printing and stationery and office supplies; municipal, school, business and special taxes; miscellaneous charges."—A. They would be a long range of small items.

Q. Which go into the cost?—A. Which, rather than make an exhaustive list of them, we brought together into a group heading.

Q. From your knowledge of bookkeeping, can you say whether there would be any other charge that could be regarded as overhead which is not included in this?—A. I do not think so, sir.

Q. No. So that we are paying all the overhead in connection with this Bren gun contract—that is, that can be applied to the Bren gun contract; and, on top of that, 10 per cent profit.—A. With the exception, sir, for example, of Major Hahn's salary for which we have no claim as yet, and such items that they have not sent in to us.

Q. No. But under the agreement as given to this committee, 60 per cent of Major Hahn's salary of \$10,000 a year is chargeable to the contract?—A. Yes. But these represent only claims that have been put up to us; but the company may have other costs that they have not sent to us at all, for all I know.

By Mr. Brooks:

Q. Do they get 10 per cent on the purchase of machinery?—A. No.

By Mr. Green:

Q. They do on machinery that the company buys?—A. No. The only machinery that the company has purchased up to date is certain electric motors which have been attached to the machines and cost approximately—I am speaking in round figures—\$2,700. We did not allow them anything on that at all.

Q. The government has paid \$124,000 odd for machinery and has commitments for how much further?

Mr. BERCOVITCH: Altogether, \$600,000 and something.

The WITNESS: If round figures are good enough for your purpose, \$700,000.

By Mr. Green:

Q. That is over and above the \$124,000?—A. No, disallowing that; you could say half a million dollars.

Mr. BERCOVITCH: Disallowing that and disallowing the proportion due by the British government.

The WITNESS: Yes.

By Mr. Green:

Q. Do you know what the total cost of the machinery is to be?—A. All that we have is as the machines are placed and they are sent on to us for registration to reserve funds to pay for them.

Q. You cannot tell the ultimate cost?—A. We do not anticipate. We just take the stuff that comes.

Q. What is the item of "payment to British government of Canadian portion of licensing fee"?—A. I do not think we should have included that, but to be fair I wanted to put in everything. That would be a recent payment authorized by the Governor in Council and the basis of it is this: The British government had entered into an agreement with this Czechoslovakian firm for special services in connection with the drawing of plans, giving technical advice in the construction of machinery, selecting machinery and so on and so forth; and for that they had come to a deal whereby they would pay so many thousand pounds.

Q. Is that the \$150,000 that you pay?—A. No. I do not think that relates to it at all.

Q. Have you any idea how much the amount is? We were told on March 21st by Colonel Orde that the licensing fee by the British government was

[Mr. Watson Sellar.]

\$150,000 as distinguished from royalties. I think Colonel Orde said it had not been decided whether or not Major Hahn would pay any of that, although the British government were asking that they pay 10 per cent.

Mr. BERCOVITCH: Oh, yes.

The WITNESS: That is a different thing.

By Mr. Green:

Q. I beg your pardon?—A. I think that is a different thing altogether. This is really for technical assistance in organizing the plant. I have the order in council.

By Mr. Homuth:

Q. That is for technical advisers who came over here to organize the plant?—A. No. I could read you the order in council, if you wish.

Mr. GREEN: I wish you would do that.

The CHAIRMAN: What item are you dealing with?

Mr. MACNEIL: The \$16,000 on page 1.

The WITNESS: The \$16,000 item.

By Mr. MacNeil:

Q. May I ask a question? This is outside the contract?—A. It is outside the contract. It has no relationship to John Inglis Company. It is in connection with the joint direction of the British and Canadian governments in their whole Bren gun construction programs and it is not reflected in this contract at all.

By Mr. Homuth:

Q. But in your accounting you charge it to the cost?—A. We admit it as a charge.

By Mr. Green:

Q. Part of the cost of Canada's Bren gun?—A. We treat it as a departmental cost in connection with armaments, and the Bren gun in particular.

Mr. McCANN: Why should it be taken up here when it has nothing to do with this contract?

Mr. HOMUTH: It has something to do with the contract.

Mr. McCANN: The statement of the witness a moment ago was that it had nothing to do with the contract.

Mr. HOMUTH: It is not part of the contract but it is part of the cost of the Bren gun.

Mr. GREEN: It is part of the contract because under paragraph 1 the government covenants to pay.

Mr. McCANN: This is a new thing that is covered by an order in council. It has nothing to do with the John Inglis Company.

By Mr. Bercovitch:

Q. What is the date of the order in council?—A. I think it is the 28th or the 29th of March.

Mr. GREEN: Could we have the order in council read?

By Mr. Bercovitch:

Q. It is dated the 28th or 29th of March, 1939?—A. Yes.

Mr. BERCOVITCH: That is after we started to investigate this matter, after the reference was made to us.

Mr. McCANN: Exactly.

Mr. HOMUTH: Now, Mr. Chairman, we are trying to arrive at some idea as to the cost of the production of Bren guns, also whether they are produced here at a fair price, and this is part of the cost of the Bren gun. I think it is quite in order.

The CHAIRMAN: This particular item is now included in the record in exhibit 13, submitted by Mr. Sellar this morning, so it becomes automatically part of the record.

Mr. GREEN: All we are asking is that it be explained.

Mr. BERCOVITCH: There is no objection to it.

The WITNESS: I am sorry that my explanation will have to be limited to the reading of the order in council only because I know nothing about it. If you have a technical man he would be a better man to examine on it than I would be.

Mr. GREEN: Read the order-in-council.

The WITNESS:

The committee of the Privy Council have had before them a report, dated 24th March, 1939, from the Minister of National Defence submitting that in connection with the contract awarded to Messrs. John Inglis Company for the manufacture of Bren guns a communication has been received from the secretary to the High Commissioner for Canada, enclosing a copy of a communication from the war office, from which the following is an extract:—

I am also to say that under the agreement between the Secretary of State for War and Ceskoslovenska Zbrojovka A. S. Brno, the following payments are due to be made in return for technical assistance covering drawings of components, specifications, complete operation layout, drawings of fixtures, tools and gauges, details of tolerance, and interchange of visits of representatives:—

- (i) A sum of £20,000 within thirty days of signing the agreement.
- (ii) A further sum of £5,000 to be paid when the total number of guns made under the agreement exceeds 14,000.
- (iii) A further, and final, sum of £5,000 to be paid when the total number of guns made under the agreement exceeds 17,000.

By Mr. Green:

Q. That is the thirty thousand to which Colonel Orde referred?—A. I see.

Guns made in the dominions under licence from the Secretary of State are reckoned as part of the numbers specified. As the dominion governments concerned will require all this technical information, which will be obtained not from the Czecho-Slovakian firm but from the war department after it has been tested in war department factories, it is considered equitable that a share of the capital sum of £30,000 involved should fall on dominion funds in addition to the payments on account of royalties dealt with in the earlier part of this letter.

It may be added that in the negotiations with the Czechoslovak firm the allocation of the payments to be made between payments for manufacturing information and payments for royalties was not decided by any exact criterion, but was a matter of bargaining

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and expediency. The amounts to be paid for manufacturing information sensibly affected the rates of royalty and the government of Canada will share the benefit of the lower rate of royalty thereby secured. The method of assessment of such contribution has been carefully considered, and as it would be extremely difficult to relate the amount thereof to the actual numbers of guns manufactured by each government, from time to time, it is proposed to relate the payment from each government to the productive capacity created in each case.

The Minister states that on a proportionate basis, the share of the cost of technical assistance to be allocated to the Canadian factory would be £5,556. The council, however, has suggested that the share of the cost of technical assistance allocated to the Canadian factory should be limited to £5,000, and that no subsequent adjustment of this sum should be contemplated. The council are willing to bear one-third of this sum conformably with the arrangements under which they are contributing one-third of the capital cost of the Canadian factory, and they have enquired whether the Canadian government accepts the principle that some contribution should be made to the capital expenditure involved, and if so, whether it is prepared to make a contribution of £3,333.

This matter has been considered by the departmental officers concerned, who state it would appear that the request of the war office is just.

The minister, on the advice of the Deputy Minister of National Defence, recommends that authority be given for the payment to the government of the United Kingdom of £3,333 as a proportionate share of the payments made to Ceskoslovenska Zbrojovka A. S. Brno in return for technical assistance covering drawings, specifications, operation layout, etc.

Funds are available in the General Stores Vote, Department of National Defence, for the fiscal year 1938-39.

The committee concur in the foregoing recommendation and submit the scheme for approval.

E. J. LEMAIRE,
Clerk of the Privy Council

Q. That means that Canada is paying about \$15,000 on this licence fee?—
A. Yes.

By Mr. Bercovitch:

Q. Paying the British government?—A. Paying the British government.

By Mr. Green:

Q. Is that the total sum, \$16,220.60?—A. That is what that was converted to into currency.

By the Chairman:

Q. Is that the total amount?—A. That is the total amount.

By Mr. MacNeil:

Q. What is referred to in the item "Expenditures on account of departmental administration?"—A. That \$10,000?

Q. Yes.—A. That is mainly salaries, travelling expenses, printing and stationery.

By Mr. Bercovitch:

Q. Of departmental officers?—A. Department of National Defence.

By Mr. MacNeil:

Q. And relating to the Bren gun?—A. Relating to the Bren gun. No expenses from my office are in that.

By Mr. Green:

Q. What has been paid under paragraph 3 *g.* of the contract?—A. I am sorry I have not an exact division, but the item of \$6,600 is in connection with the buildings, of course.

Q. With which?—A. You will see "Alterations, additions, repairs and maintenance of buildings, \$6,615." That is mainly under that.

Q. That is practically all for the changes in the Hahn factory?—A. And moving machinery.

By Mr. MacNeil:

Q. And new construction?

By Mr. Green:

Q. No, of the first item, \$6,000?—A. We moved certain machinery between shops and that involved certain costs.

Q. How is the item of \$16,333.12 made up?—A. To be accurate you had better let me submit that to you; I would do some guessing if I were to try to make it up now. You would like to have that broken down?

Q. Yes, because 3 *g.* is quite a long paragraph; it covers quite a few things.—A. If you would permit me I would rather give you accurate information.

Mr. BERCOVITCH: Yes, that is what we want.

By Mr. Homuth:

Q. Under the item of light, heat, power and gas, could you tell us how that is divided as between the commercial end and the Bren gun department?—A. Basically it is on the two-thirds basis. There is one building that we are using exclusively where that will be charged up to us at a high ratio, and other buildings will be out of the picture altogether.

By Mr. Green:

Q. Did you get the figures of the total expenses of the Inglis company for light, heat, power and gas?—A. Yes, sir.

Q. Of which this is a portion.—A. Yes, sir.

Q. And this would be two-thirds of the total cost?—A. Roughly, yes.

Q. Because the Bren gun part is a very small part compared with the commercial part?—A. Yes, but there were certain buildings left out entirely, but those where we jointly participate in the use of the buildings are on a two-thirds basis.

Q. What are the items under 5 *p.*, municipal, school, business and special taxes, \$3,161.09?—A. Those are the municipal assessments.

Q. Have you a break-down of those figures?—A. No, sir, I have not got it here. You want it divided as between school, business and other taxes assessed by the city?

Q. If you could get it.—A. Yes, quite.

By Mr. Kennedy:

Q. Do we pay a profit under the school tax?—A. No.

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By Mr. Green:

Q. It is under the 10 per cent column in your statement.—A. Yes, it is under that.

By Mr. Kennedy:

Q. Do we pay a profit on business tax, 10 per cent?—A. Yes.

By Mr. MacNeil:

Q. I take it from the way your statement is made up that the treasury paid for the reconstruction of the building in which the Bren gun operations are now housed?—A. Not for the \$75,000 building.

Q. The new building?—A. No.

Q. Or any alterations to that building?—A. No, we paid nothing for that at all.

By Mr. Green:

Q. What amount is paid by the Inglis company for plant extension?—A. You are referring to that new building?

Q. Yes.—A. I have been told that it is approximately \$74,500.

By Mr. Bercovitch:

Q. Paid by John Inglis Company?—A. Paid by John Inglis Company. It is not before us except indirectly. We have the figures on the records.

Q. But you have nothing to do with it?—A. No.

By Mr. Green:

Q. Is the company entitled to make claim for payment of that amount?—A. They have never made one yet.

Q. Are they entitled to under the contract?—A. It all depends on the interpretation you give to that clause, whether that is a minor alteration or a material alteration.

Q. Which paragraph would that be under?—A. Does that not come under G?

Q. 3G?—A. Yes.

Q. So that the government may be faced with a claim for the cost of extending that plant?

Mr. BERCOVITCH: Why put it in that way, that the government may be faced with it? No claim has been made, and if the Inglis people have a claim it will be under the contract.

By Mr. Green:

Q. Are you expecting a claim for that item?—A. No, sir, I am not, because G says that they shall have prior approval of the party of the first part, and, to the best of my knowledge, they did not apply for it.

Q. That would be the Department of National Defence?—A. Yes. You would have to ask them.

By Mr. MacNeil:

Q. Under 5 (1) you are responsible for repairs and minor alterations also, Mr. Sellar?—A. Yes.

By Mr. Homuth:

Q. Under that item of \$2,912,52, travelling expenses of employees of the firm, what travelling was done?—A. That was travelling of various officers to Ottawa, several trips.

By Mr. Green:

Q. Have you the details of the trips?—A. That is in connection with the item of \$2,912, is it?

Q. Yes.—A. Major Hahn made nine trips to Ottawa. Do you want round figures or exact figures?

Mr. HOMUTH: No, round figures will do.

The WITNESS: Major Hahn's expenses were \$230.77.

A. L. Ainsworth, 2 trips to Montreal, 4 trips to Ottawa ..	\$144 00
W. J. Gazey, 19 trips, (Windsor, Galt, Guelph, Brantford, Montreal, Ottawa, Toronto, etc., re tooling)	216 00
G. W. Gillespie, England to Canada, 2 trips to Ottawa ..	216 00
W. T. West, 3 trips to Ottawa.	148 00
W. R. McLachlan, 3 trips to Ottawa	55 00
Harold Senior, local travelling.	4 63
Messrs. Hahn, Ainsworth and McLachlan, 1 trip to Ottawa	58 00
Messrs. Ainsworth and McLachlan, 1 trip to Providence, Hartford and Springfield, 1 trip to Ottawa	126 00
Messrs. McLachlan and Gazey, 1 trip to Cincinnati	70 00
Messrs. A. L. Scott, E. Kennard, H. Blades, J. McCoy, J. Keyes, R. Patterson, C. A. Plummer and W. E. Silburn, to England for training	1,640 00

By Mr. Homuth:

Q. So that in connection with these travelling expenses, not only do they get the costs of whatever they spend, but they also get 10 per cent profit on that?—A. That is what the agreement provides.

By Mr. Green:

Q. Every time Major Hahn comes to Ottawa he gets his expenses and the company get 10 per cent on that?—A. For such amount as the government deems reasonable.

By Mr. Brooks:

Q. In connection with the item under 5p, municipal, school, business and special taxes, do the special taxes include sales tax?—A. No; sales and customs taxes are exempt.

Q. But on the school and other taxes they receive 10 per cent?—A. Yes. They are not in that list that the 10 per cent is excluded from.

Q. What is that big item of travelling expenses to England?—A. That was the group of men that went over there for training in the plant in England.

By Mr. MacNeil:

Q. What period is covered by these items just listed?—A. These are all since the contract has been made up to date, for which we have received claims.

By Mr. Green:

Q. Are there any other claims in under it?—A. There is a depreciation account that I know is before the department. It is not before us officially.

By Mr. MacNeil:

Q. Have claims been made which were rejected by your branch?—A. No, I would not say that there are any; we have had disagreements, and wanted more information, but officially we have not rejected any claims yet. You see, we work in close co-operation with the department.

[Mr. Watson Sellar.]

By Mr. Golding:

Q. Some things have been readjusted?—A. That is natural.

By Mr. Kennedy:

Q. I thought we didn't have to pay any sales tax?—A. On everything that the government purchases we pay sales tax. The provincial government does not pay sales tax. We do.

By Mr. Homuth:

Q. Mr. Sellar, you have not in that item for \$3,596.95, the breakdown of the individual items for that item of miscellaneous charges?—A. No, sir. I could very easily get that for you. I haven't got it with me. Would you like to have it?

Q. Would you bring that to the next meeting?—A. Certainly.

By Mr. Brown:

Q. With respect to that expenditure under departmental administration, do you know whether or not provision was made in any of the estimates for that in the cost of the gun?—A. We were not in on this thing during the course of its preparation. We get the contract once it is made. We are not in the picture before that. I do not know how their estimates were made up.

Q. That was really an additional cost incurred by the department?—A. Oh, yes.

Q. Well then, that expenditure will be continuing also; isn't that right?—A. Yes, the \$10,600 item.

Q. Yes?—A. Yes, that will continue along, and as I said before, it does not include my cost.

By Mr. Green:

Q. Has anything been paid under provision 3 (e) of the contract, which is for the actual cost of the preliminary investigation, planning and engineering services carried out by the Inglis company prior to the execution of the agreement?—A. No.

Q. Have you had any claim from the company under that paragraph?—A. We have never had it. The department may have had it, we have never had it.

MR. BERCOVITCH: You do not know whether the department have it or not.

By Mr. Golding:

Q. None of these claims would be paid, except through you?—A. By law we have to make all payments.

The CHAIRMAN: We have that evidence here.

By Hon. Mr. Stewart:

Q. Might I ask just one question? On this second sheet, under the heading "salaries and wages" there is an item of \$42,713.65 reading as follows: "wages for indirect labour (clerical, advisory and supervisory) including the salaries of executive officers of firm." Now, do I understand you to say that as yet the amount payable to the executive officers of the firm has not been determined and was no sum included in this \$42,000?—A. To my knowledge, from reading the proceedings of this committee, I know that there has been an amount allocated for certain officers, senior officers of the firm. No claims have come to me with respect to this, but that title, Mr. Stewart, which you read just now, was prepared for a printed form, and it is really an all-inclusive thing,

shortened down for accounting purposes. It takes in the whole clause. The actual people charged against that are a large number of salaried workers and wage earners.

Q. Well then, inasmuch as that total of \$42,000 odd is included in the total of \$113,670, and plus 10 per cent because it is in the profit column, on that \$113,670.65, it follows that there would be a 10 per cent addition in that item on any salary that may have been paid to executive officers of the firm?

—A. Yes, sir.

Mr. BEAUBIEN: That is on your cost-plus.

Hon. Mr. STEWART: That is what I wanted to get clear.

By Mr. Homuth:

Q. In other words, the Inglis company in the work they have done up to date have been fully paid as to overhead and everything in connection with the work, and have received a profit of 10 per cent, which profit has amounted to \$11,367.06 up to date?—A. On the claims they have presented to us.

Mr. HOMUTH: Yes.

By Mr. Green:

Q. You are really the official of the department who has the say as to whether or not a claim is a proper claim?—A. My duty is to challenge it if I do not think it is right. The government or the law officers then decide. If I let one go by and it is wrong I am responsible and subject to dismissal.

Q. What would you say as to the claim in 3E(1), covering the preliminary cost, the cost of preliminary investigation before the execution of the agreement; which contains, for instance, an item of the 9th of October, 1936, J. E. Hahn, Ottawa conference with Col. L. R. Lafleche regarding possibility of producing Bren gun in Canada—J. E. Hahn, one day, \$50.

Mr. BERCOVITCH: Just a moment, there is no such claim paid; and if it is not paid are we interested in it at all?

Mr. GREEN: There has been such a claim filed.

Mr. BERCOVITCH: But it has not been paid. Other items have been paid but this one has not been, and it is probably subject to adjustment, and perhaps will never be paid.

Mr. GREEN: I think, Mr. Chairman, we are entitled to find out what this witness thinks about it; after all, he is the final authority on this matter, and I want to find out what he thinks about this which admittedly has been put into evidence, because I have been given a summary of the contents of it here.

Mr. MACNEIL: And this summary is now in the possession of the committee.

Mr. BERCOVITCH: Even so, I take it that this witness is not competent to answer. However, that may be, I do not think it makes very much difference, this witness will not take it upon himself to interpret the law in regard to the contract, something which would be done by the law officers of the crown, and after they have given their decision on the points of law involved then it will be proper for this witness to make up his own mind as to whether the account should be paid or not.

Mr. HOMUTH: But he is the final authority.

Mr. BERCOVITCH: Only after he receives authority from some one else.

Mr. GREEN: It is a known fact that there has been a claim filed by the Inglis company under this item.

Mr. MACNEIL: It is in evidence before the commisison.

Mr. GREEN: It is a claim for \$25,171.12. Under the terms of the agreement, of course, in the contract, those claims can only be allowed up to an

[Mr. Watson Sellar.]

amount of \$20,000. This claim contains over \$9,000 for payments to Hahn on the basis in the contract of, in some cases \$50 a day and in some cases \$35 a day, of over \$6,711 for Hahn's expenses, all before the contract was signed; and over \$7,000 for legal fees of the Inglis firm. Again I submit that we are entitled to ask Mr. Sellar what he thinks about these different items that are in this claim which it is admitted is before the government. It might not have been paid. I do not wonder the government hesitates about paying it, but they made a contract to pay \$20,000, and I want to know whether Mr. Sellar thinks these charges proper charges under this paragraph 3E(1).

Mr. BEAUBIEN: Would you not be able to get your information if you were to ask Mr. Sellar if that claim has come before him for settlement?

Mr. MACNEIL: I think it would be fair to ask him whether or not he has any information with respect to such a claim.

Mr. BERCOVITCH: I think it would be a matter for the law officers of the crown to decide whether the claim comes under the contract or not. This witness, with all due respect to him, I submit, is not competent to interpret the contract. This amount has not been paid notwithstanding the fact that various other items have been paid under the contract because the government said it was fit and proper that they should pay them, but in this instance you are asking this witness to interpret the contract, and my respectful submission is that he is not competent to interpret that.

Mr. GREEN: This witness has to decide whether or not hundreds of thousands of dollars are properly payable under the contract. For example, for machinery, and for tools, and for wages and so on; yet Mr. Bercovitch suggests that he is not competent to interpret what would come under it, or give us an opinion about this item of preliminary expenses not to exceed \$20,000. I submit that contentions such as those are not logical. Surely, if he can decide and rule on one item or group of items he is equally competent to rule on another, and we want to know whether or not these items are properly chargeable.

Mr. BERCOVITCH: My point is that the witness does not decide on these things. They come from various departments and from various officials first before he has to deal with them. After they have passed all these various officials then the witness has to decide whether payment should be made or not. That is the procedure as explained by the witness this morning in opening his evidence.

Mr. BEAUBIEN: I do not think Mr. Sellar really should pass any opinion on the claim of Major Hahn until that claim has come before you, Mr. Chairman.

The CHAIRMAN: I would suggest, Mr. Green, having listened to the discussion, that it probably would be fair to look at it in this way. I have the details of the claim before me here if you like to look at them. However, in view of the fact that this claim has been rejected in some department, through the rejection of that department it has not come to the attention of the witness.

Mr. HOMUTH: Now, Mr. Chairman, has it been rejected, or has it simply not been passed?

The CHAIRMAN: In answer to that question I can only say that we have it in evidence here that the claim has been rejected.

Mr. GREEN: Mr. Chairman, you have a letter to Mr. Burgess, dated April 3rd, 1939, from General LaFleche—I won't read the whole letter—but it contains the following:—

With reference to your letter dated April 1st, in which you ask to be furnished with certain information respecting the Bren gun contract, including the following:—

(1) Amount the government is responsible for, as well as actual expenditures, under section (3), paragraph (e) clause (1).

And the general answer to that is as follows:—

1. The government is responsible for an unknown amount not exceeding \$20,000 but subject to the control of the department. There have been no expenditures to date.

Now, we have been told that this is a claim for \$25,000, and that it has been put in under paragraph 3(e) (1); and here is General LaFleche in the statement that the government is responsible for an unknown amount.

Mr. BERCOVITCH: Quite.

Mr. GREEN: I want to have Mr. Sellar's opinion on this claim put in under this paragraph.

The CHAIRMAN: I am not raising the question as to whether the claim should be discussed, it is on the record now. I am just trying to turn over in my mind whether it is fair to ask the witness a question about a claim which has not come to his attention yet. Whether it has been rejected, or held in some other department, it does not seem to me to be reasonable to ask the witness questions about a claim he has not seen. Why not put your question in some other way and get the answer you want?

Mr. HOMUTH: Is the statement to which reference was made a part of the record?

The CHAIRMAN: Yes, it is a part of the record.

Mr. MACNEIL: No, it is not in the record.

The CHAIRMAN: It is going into the record—which statement do you refer to?

Mr. HOMUTH: The statement that was referred to this morning as a claim.

The CHAIRMAN: It is going into the record.

Mr. HOMUTH: I mean the statement that has not yet been passed.

The CHAIRMAN: It is filed here as an exhibit under the Davis commission.

Mr. GREEN: Then I would ask that the summary, which incidentally is a part of that exhibit before Mr. Justice Davis, be put on the record of the proceedings of this committee. It is dated June 15, 1938, and it is a claim for preliminary expenses put in for the John Inglis Company.

Mr. MACNEIL: The summary should be put into the record.

Mr. BEAUBIEN: Why should it be placed on the record if it has not been finally dealt with?

Mr. MACNEIL: I submit that we have discussed at length the provision in the contract for precontractual expenses. It was in the evidence before Mr. Justice Davis that the John Inglis Company submitted a claim with vouchers, and we have been furnished through the clerk of the committee with a summary of that claim itemizing all the various details. We have on the stand now the officer of the government who has stated that he has the power of rejecting what he considers to be an improper expenditure or an expenditure in excess of or beyond the terms of the contract. Now, here is a very real claim, a claim that has been before the government, I understand, and under mysterious circumstances it was withdrawn, but nevertheless we are liable, and I think we quite properly should examine this witness as to our liability with regard to such items as appear in this statement; for instance, the account of Blake, Lash, Anglin and Cassels, professional services, \$756.39; and the item of June 15th, account of the Plaxton company for professional services amounting to \$6,500.

Mr. BEAUBIEN: That does not say, Mr. MacNeil, that we are liable for the claim until the claim has been admitted.

[Mr. Watson Sellar.]

Mr. MACNEIL: The witness, I submit, with all deference to the witness, is the man who must exercise judgment as to whether or not this claim is to be paid.

Mr. BERCOVITCH: Supposing that the Attorney General's Department say that is not a valid claim under the contract, is the witness going to take it upon himself to pay that claim? Of course not.

Mr. HOMUTH: Suppose he does.

Mr. BERCOVITCH: If the other department pass the claim and say it is a valid claim under the contract then the witness will use his discretion. That has not yet happened; as a matter of fact, the very reverse has happened, the law officers or someone else having to do with this particular claim have rejected it.

Mr. GREEN: General LaFleche has said that the government is responsible for an unknown amount not exceeding \$20,000; I submit that we are entitled to ask this witness as to the details of this claim.

Mr. BERCOVITCH: No, we are not.

Mr. GREEN: He is the man who has the final decision as to whether or not these claims are to be paid, they do not go to the Department of Justice first and then to him; he is the final officer with regard to these claims. He is the one man that we should be entitled to ask about them.

Mr. BERCOVITCH: If Mr. Green wants that information we are going to have General LaFleche here and he can cross-examine him on that statement. We should not ask this witness as to what the Deputy Minister of National Defence had in his mind when he wrote that letter. That is what you are dealing with here.

Mr. MACNEIL: I invite the attention of Mr. Bercovitch to the outline given by the witness of the procedure followed in respect to accounts submitted by the John Inglis Company; they are first passed on by representatives of the department in Toronto, then they go to officials of the Department of National Defence and from there they proceed to Mr. Sellar's office.

Mr. BERCOVITCH: No, they go to the Department of National Defence.

Mr. MACNEIL: The whole point is that these matters finally come to Mr. Sellar for decision. In any event, if the Department of National Defence O.K.'s the item then it goes on to him.

The WITNESS: It comes to me if it is passed. Might I interrupt on these legal questions? With respect to these legal matters there is an order in council directing that all accounts for legal expenses—it was passed over 70 years ago—shall be referred to the Department of Justice to tax, and such amount as they approve only may be paid.

Mr. BERCOVITCH: The statement referred to contains that information.

Mr. GREEN: It does not, that is only a summary compiled of these claims.

Mr. BERCOVITCH: You are emphasizing legal expenses in this connection.

Mr. GREEN: No, what I am emphasizing is that this man Hahn is putting in a bill for \$50 per day every time he comes down to Ottawa.

Mr. BERCOVITCH: When Major Hahn comes here he will be available as a witness to examine on that point. He will be a competent witness with regard to the matter, and I submit that the present witness is not so competent.

Mr. MACINNIS: I think we are wasting a lot of time. I do not think this witness could answer any of these questions which have been put to him, for the reason that the items in the claim have not yet reached him; therefore, he cannot answer them. There is no embarrassment at all as far as the witness is concerned. I suggest that the questions be put and the witness will know how to answer them.

By Hon. Mr. Stewart:

Q. I would just like to ask one or two questions to clear it up. Have the items on this statement been before you for consideration at all?—A. You mean, with respect to the \$20,000?

Q. Yes?—A. No.

Q. It has not been before you?—A. No.

By Mr. MacNeil:

Q. Have you had knowledge of its existence?—A. I have, from reading the proceedings of the Davis commission.

Mr. McCANN: This is not the place where we should pass judgment on it at all.

Mr. GREEN: These items probably will come before Mr. Sellar after this committee has gone home. I submit that we ought to know from this man, who has the authority, whether or not such charges as this \$50 per day to Major Hahn while he was trying to get this contract should be paid by the government under this contract.

By Hon. Mr. Stewart:

Q. Might I ask a couple of questions? Can this witness tell us whether under this contract the Inglis company, or Major Hahn, is entitled to make a claim for expenses?—A. A claim?

Q. Yes?—A. Under that section (1) there they are entitled to make a claim not exceeding the amount which can be allowed, it cannot exceed \$20,000.

Q. They are entitled to make a claim; to whom would the claim be presented in the first instance?—A. To the Department of National Defence.

Q. And they would rule on it?—A. They would rule on it, yes.

Q. And then would it come up to you; would you have the right of rejection?—A. I cannot tell what all the department may do, but in due course, if they were approved, the accounts would come to us for payment.

By Mr. Bercovitch:

Q. Only if they were approved?—A. Yes, sir.

By Hon. Mr. Stewart:

Q. Would you have the right of the revision or the rejection of them?—

A. I would have a very limited right, because I have no right to interfere in departmental decisions. My right to interfere is only when they are exceeding their power as given to them by the Governor in Council. The Governor in Council did give them the power to make a contract providing for payment up to but not exceeding \$20,000.

By Mr. Beaubien:

Q. Would the auditor general not check you if you did not do things right?—A. I hope so.

The CHAIRMAN: May I correct the record in regard to what I said a minute ago? Mr. Burgess advises me that this claim you are talking about was not produced by the department but was requested before the Davis commission and produced by the John Inglis Company after it had been sent back to them by the department. Is that correct?

Mr. MACNEIL: "Withdrawn," I think, is the word.

The CHAIRMAN: Well, withdrawn.

Mr. MACNEIL: It was withdrawn by the John Inglis Company.

The CLERK: Withdrawn.

[Mr. Watson Sellar.]

The CHAIRMAN: Withdrawn by the John Inglis Company.

Mr. GREEN: Taken back for changing.

The CHAIRMAN: We will say it was withdrawn.

Mr. GREEN: It is the only account that came before Mr. Justice Davis and it is the only account that is before us; and I submit that we are entitled to go into the details of that account. There is no reason why this item should be stood over or that we should be refused the right to examine on it simply because the government has something—

Mr. BERCOVITCH: There is an additional reason why this account should not be gone into. It was submitted to the Davis commission, as we have just been told, and has been withdrawn. What have we got to do with it? When it comes up it will go to the proper department. They will pass on it in due course. It may or may not reach the present witness. What have we got to do with it? Surely we have many more important things to go into than the matter of an account that has been withdrawn. So, as far as we are concerned, there is no claim.

Mr. GREEN: Mr. Chairman, the deputy minister who, after all, is the authority on this matter and not Mr. Bercovitch, has said that the government is responsible for an unknown amount not exceeding \$20,000, subject to the control of the department, and there have been no expenditures to date. It is a very simple way for the government to avoid any discussion or cross-examination on this matter if they simply delay paying it until parliament is prorogued and we are out of the picture.

Mr. BERCOVITCH: Why make that suggestion?

Mr. SLAGHT: Mr. Chairman, may I make a comment on this? Two or three weeks ago it was made amply clear in evidence that this account had been presented, had been withdrawn, had not been finally considered by the department whose duty it is to consider it and none of it had been paid. It is all very well for the last gentleman to suggest that this is a method of evading cross-examination. Does the business of the country require to be run in order to facilitate his cavilling and cross-examining on such items?

Mr. GREEN: I object to that. Mr. Chairman, every time the hon. member for Parry Sound comes to these committee meetings—on the few occasions he does come—he casts slurs of that type on me or someone else in the opposition. I would ask you to stop that kind of business, Mr. Chairman. I am not a criminal in the box. We are trying to get at the root of this matter, and I object to personal remarks of that type. I try not to be personal myself, and I do not see why Mr. Slaght should come here and start that kind of thing. If he is going to go on with it, I can tell him he will get lots back.

Mr. SLAGHT: He who excuses himself too much—and the hon. member says he is not a criminal—accuses himself, according to the French proverb. There is no suggestion of that kind here. My friend is too sensitive. The point is this: Is this committee to usurp the function of government to scrutinize that account when it comes back and say whether it is honest and fair and should be paid or not? If this committee decide they are to usurp that function of government and department of audit and scrutiny, then away we go into an account that is merely presented—or not even yet presented.

Mr. BEAUBIEN: And withdrawn.

Mr. SLAGHT: Why should we waste time with it?

Mr. BROOKS: There was an outcry throughout the country.

Mr. SLAGHT: The outcry throughout the country came from those who wanted to close the Bren gun plant, including your leader. May I point out that there is no account which has been allowed or paid. When it is allowed and paid, if there is an improper item in it, it may be subject to scrutiny

of the fullest possible kind. But to come and suggest that it should be gone into item by item now is, to my mind, quite aside from the duty of this committee and is preventing us from getting down to further facts which are relevant to enable the committee to report.

Mr. MACNEIL: I submit, Mr. Chairman, that this claim has existence. We cannot deny its existence. I would remind Mr. Bercovitch that it was produced during the inquiry at the insistence of Mr. Commissioner Davis. There is another point I wish to make with regard to this, if I may do so, and that is that I think, in view of Mr. Sellar's capacity, I may quite properly examine him as to the procedure which he follows in regard to accounts of this nature, having in mind the terms of the contract.

Mr. BERCOVITCH: He has told you all that.

Mr. MACNEIL: There is another important point and one which we cannot overlook. In the execution or performance of a cost plus contract, one of the most important features is the reliability and integrity of the contractor and his associates. This document is one of the most revealing documents that I have ever seen of the intention of the contractor in this particular instance, as to what he intends to claim under the provisions of the contract. I submit that on that basis we have a perfect right to examine not only this witness but other witnesses, with reference to this particular document, because we are dealing with a contractor who puts in a claim—the first item is \$79.95 for one day in Ottawa, when on his own statement before Mr. Commissioner Davis he only spent five minutes with the Deputy Minister of National Defence.

Mr. SLAGHT: What does the hon. member know about it?

Mr. MACNEIL: It is in the claim submitted.

Mr. SLAGHT: Let us get on and get some evidence.

Mr. MACNEIL: Will you allow me to finish? I have the floor at the moment. I did not interrupt Mr. Slaght when he was speaking. It is in the claim submitted to the director of contracts, Department of National Defence, by John Inglis Company and is a document that comes to us from the royal commission established by the government. And all throughout the claim we find that Major Hahn, in this preliminary investigation, during the period when we were uncertain whether he is a government representative or a potential contractor, has charged up, in addition to his expenses, an allowance of \$50 per day.

Mr. BEAUBIEN: Would it not be better to get Mr. Hahn on that?

Mr. MACNEIL: I am making a submission to the chairman that I can quite properly examine this witness as well as other witnesses with regard to the procedure which he followed with regard to claims of this nature, because this document is in existence as part of our exhibits.

Mr. BERCOVITCH: My friend, Mr. MacNeil, is trying to get this witness to question the honesty, probity and perhaps the veracity of Mr. Hahn. Surely the witness is not here for that purpose; and the witness would not be a competent witness to go into the honesty of Major Hahn or anyone else.

Mr. MACNEIL: It is not a matter of his honesty.

Mr. BERCOVITCH: That is what it amounts to. My hon. friend might be able to argue and say this man is not the type of man who should be entrusted with a contract of this kind. But that is a matter of argument. I agree with the hon. member from Parry Sound. But surely it is not for the witness to go into the box and testify as to the probity or uprightness or fairness of another witness. I submit that the question is improper and should not be allowed.

Mr. HOMUTH: Every time we come to some point which apparently is not in general agreement with the government, we have some reference made to the fact that the conservative leader and some others of us wanted to close the

[Mr. Watson Sellar.]

factory. The old flag is waved and it is said that we would not have guns and so on. What we are anxious to know is what the gun is going to cost. It is part of the cost of producing the gun.

Mr. MCPHEE: We got that evidence yesterday.

Mr. HOMUTH: We just got part of it. We are beginning to realize that even the government has no idea whatever what the gun is going to cost. The question is: Are they going to pay \$5,000 under this bill or \$20,000? Undoubtedly they will pay \$20,000, if they handle this clause just the same as they have the rest of the contract. There is a sum of money to be paid. The bill has been submitted. Under a certain clause of the contract they have the right to claim \$20,000. I think we are absolutely within our rights to ask this witness whether or not such claims as this should be allowed—seven weeks in England, \$300 a week for Mr. Hahn, \$2,000 odd expenses—those are the claims Mr. Hahn has put in. They have been withdrawn. Well, they should be. It is mighty good political business that it has not been paid yet. But the thing is this: I think the witness is competent to answer, and we have the right to ask whether or not such claims as this, in his opinion, are justifiable under that clause.

Mr. McCANN: Mr. Chairman, Mr. Homuth made reference to the fact that we wanted to find out what the cost of the guns is. He was not here yesterday. The \$20,000 is included in this statement of cost that was submitted yesterday.

Mr. HOMUTH: That is all right.

Mr. McCANN: What further do you want?

Mr. HOMUTH: We do not know whether it is going to be paid.

Mr. BERCOVITCH: The gun will cost less if it is not paid.

Mr. HOMUTH: It is better if it is not paid.

Mr. BERCOVITCH: It is not a question of better or worse. We are here to get the facts.

Mr. MACNEIL: I have a question which I submit is quite proper. Mr. Sellar has a well recognized procedure in dealing with travelling expenses; a per diem allowance in certain instances is allowed under government contracts or for government officials. For instance, on October 17, there is a claim: "J. E. Hahn at Ottawa conferring officials of the Department of National Defence regarding production of Bren machine guns in Canada and probable cost of same, expenses—sheet No. 2 attached—\$30.60; J. E. Hahn—one day—\$50." Then a little later on we find, "J. E. Hahn, seven weeks at \$300 per week, \$2,100." Then a little later we find, "J. E. Hahn, one day, \$50." a little later we find, "J. E. Hahn—twelve days at \$35—\$420." And a little later on we find, "J. E. Hahn—ten days—\$350." Now we want to know what procedure is followed. I am quite sure that Mr. Sellar does not follow one procedure in one case and another procedure in another case. Also there is a claim. The point comes up as to what period he should be regarded as a representative of the government and what period he should be regarded as a potential contractor, a decision that ultimately Mr. Sellar may have to make. Furthermore, we have an account here for a legal firm of \$756 which did not enter into the picture, as I understand it, except with regard to the execution of the British contract. They were consulted by Colonel Orde on behalf of the Department of National Defence. Would that or would it not be an admissible claim? But I submit the question as to the procedure that is followed by Mr. Sellar and his department with regard to claims of this nature is properly a matter of questioning for members of this committee.

Mr. BERCOVITCH: We are not questioning that at all. What we say is this: All these items that Mr. MacNeil has just read have been withdrawn.

Mr. MACNEIL: And may be re-presented.

Mr. BERCOVITCH: When they are presented we will deal with them; but now they have been withdrawn.

Mr. BEAUBIEN: Mr. Sellar admitted that he knows nothing about that claim.

Mr. SLAGHT: He does not ultimately pass on it.

The CHAIRMAN: May I deal with the facts as we have them before us, prefacing what I have to say by making the statement that it is not the intention to prevent questioning regarding these vouchers that we have before us. I now find I was correct in my first statement when I said that that claim was rejected. Under date of April 5, General LaFleche said that that claim was rejected, so let me take that as step No. 1. In the first place, this witness—

Mr. MACNEIL: Just a minute, Mr. Chairman. May I ask who informed you as to that point?

The CHAIRMAN: I just got the letter here.

Mr. MACNEIL: Because there is some slight inconsistency there.

The CHAIRMAN: Yes, there is. That is why I tried to correct it.

Mr. MACNEIL: With the evidence given before Mr. Justice Davis.

Mr. MACINNIS: Who is the letter to?

The CHAIRMAN: It is addressed to Mr. Burgess.

Mr. GREEN: I do not think anybody doubts or rather I do not think that anybody would question for a minute that there is a claim to come in and there is a liability on the government up to the maximum of \$20,000. It may be, as I understand it, that this claim was taken back to be altered or amended. What I want to get at is whether under the terms of 3(e)1, Major Hahn is entitled to put in a claim of \$50 or \$35 a day for his time when he is up here with the department and when he is in England; and whether he is entitled to get his travelling expenses all during the precontractual period, under this subsection 3(e)1. I think that is a very vital question.

The CHAIRMAN: In order to clarify it, may I just continue in this way: Under date of April 3, General LaFleche also admits that there is this outstanding claim. Those are the facts as we have them. We will have Major Hahn here to-morrow and probably General LaFleche the first of next week. I submit those are the witnesses that should be questioned as to this claim.

Mr. SLAGHT: Certainly.

The CHAIRMAN: I can quite see Mr. MacNeil's point in questioning this witness on a matter of procedure. I do not see anything wrong with that. But I do not think we should question this witness about something that has not been before him, particularly when you are going to have the two persons who can answer in reference to the claim which is on the table and before everybody as witnesses within the next few days.

Mr. BERCOVITCH: That is correct.

The CHAIRMAN: That seems to me to be the reasonable attitude to take, and I think that my friend Mr. Stewart brought that out in his question to the witness. Maybe we could proceed with the witness as to the matter of procedure and not ask him to answer questions that are not before him, and which should be answered by somebody else. I think that is the fair thing.

Mr. GREEN: Mr. Chairman, would it be possible for a copy of this statement to be given to Mr. Sellar to take away? Then we could recall him on this point. A copy should also be put on the record of the proceedings here.

Mr. BERCOVITCH: If you are going to have Major LaFleche here to testify on that point, and you are going to have Major Hahn to testify—

[Mr. Watson Sellar.]

Mr. GREEN: Major Hahn naturally thinks it is all right or he would not put in the claim.

The CHAIRMAN: I do not see any objection to handing Mr. Sellar a copy of the statement. I do not see any objection to that at all. Whether he wants to take the responsibility of answering that question is another matter.

Mr. GOLDING: It would not be fair to ask him to assume that responsibility before the proper officials have passed on it. It is not fair to ask a question like that at all.

Mr. MACNEIL: I think we all recognize Mr. Sellar's ability, and he will take care of himself.

Mr. GOLDING: I do not think it is fair to ask him that.

Mr. SLAGHT: Mr. Chairman, it is a fact, in the first place, that the government rejected the bill you are talking about.

The CHAIRMAN: Yes.

Mr. SLAGHT: Had we not better determine from General LaFleche if he was the rejector or from Major Hahn if he agreed with the rejection, as to what is the reason, instead of having a gentleman who has nothing to do with it theorize about what he might do if some day it came before him again in the form in which it was rejected before?

Mr. GREEN: Somebody in the government has the duty to say whether or not Major Hahn is entitled to collect \$50 a day for any part of the period before this contract was signed, under the terms of paragraph 3 (e) 1; and I submit to you that Mr. Sellar is the man to answer that question.

Mr. McCANN: Do you think this is the place where he should pass judgment on the bill?

Mr. GREEN: I would let him have time to go over it; and then I think he should be able to get his evidence.

Mr. McCANN: Do you think this is the place where he should pass judgment?

Mr. GREEN: Absolutely.

Mr. GOLDING: Before the proper officials have dealt with it at all? You think that? That is most ridiculous.

The CHAIRMAN: From Mr. Sellar's own statement this morning I do not think he is the proper witness to answer that question. General LaFleche will be here before this committee within a few days, why not ask him the question? The present witness has not seen the claim and has not had to deal with it. The question is more a matter of procedure; surely, he is not a proper witness to ask that question to, and there will be ample opportunity in the next few days to get the answers you desire, and to get them from the department and the officers directly responsible and familiar with all the details. I think you should accept my suggestion on that point. I think that decision is fair.

Mr. GREEN: Are you willing to let that account go on the record?

The CHAIRMAN: I was just going to suggest that with the permission of the committee this statement should be taken as read and put on the record.

Mr. SLAGHT: Why should you put a statement on the record that was rejected by the government and has not been paid as matters are? We could fill this thing with all sorts of fantastic material.

Mr. GREEN: You have already done that.

Mr. SLAGHT: I think we have plenty to do to get at all the facts.

The CHAIRMAN: May I say to the hon. member that half of the statement is already read into the record.

Mr. SLAGHT: Because half of it has been read is no justification for putting in the other half.

The CHAIRMAN: May I say further to the hon. member that I do not see any objection to putting it on the record.

Mr. GREEN: It was an exhibit before the Davis commission.

The CHAIRMAN: I don't particularly want to do it from the standpoint of economy. I think however that we might take it as read and put it on the record.

JOHN INGLIS CO. LIMITED
14 STRACHEN AVE.,
TORONTO, CANADA

July 4, 1938.

To W. R. Todd, Esq.,
A/Director of Contracts,
Department of National Defence,
Ottawa.

Serial No. 12.

Description:

Actual cost of preliminary investigation, planning and engineering services prior to the execution of British and Canadian agreements, as per sub-section (e) 1, section 3 of the Canadian agreement.

Actual cost as per accounts and vouchers attached.....	\$25,171 12
Amount payable <i>re</i> above.....	20,000 00

JOHN INGLIS CO. LIMITED
14 STRACHEN AVE.

TORONTO, Ont., June 15, 1938.

Sold to
Department of National Defence,
Ottawa.

Cost of preliminary investigation, planning and engineering services prior to execution of contract agreement for production of Bren machine guns, per section 2, sub-section (e) 1, of contract.

1936

Oct. 9	J. E. Hahn at Ottawa. Conference with Col. L. R. LaFleche regarding possibility of producing Bren machine guns in Canada. Expenses—Sheet No. 1 attached.....	\$	29 95
	J. E. Hahn—1 day.....		50 00
		\$	79 95
Oct. 17	J. E. Hahn at Ottawa, conferring with officials of Department of National Defence regarding production of Bren machine guns in Canada and probable cost of same. Expenses—Sheet No. 2 attached.....		30 60
	J. E. Hahn—1 day.....		50 00
		\$	80 60
Oct. 20 to Dec. 6	J. E. Hahn in England, interviewing Sir Harold Brown relative to manufacture of Bren guns in Canada for British Government. Making surveys at Enfield plant and securing data necessary for report on Canadian possibilities and consequent saving on Canadian Government by arranging contract from British War Office. Expenses—Sheet No. 3 attached.....		1,322 26
	J. E. Hahn—7 weeks at \$300 per week.....		2,100 00
		\$	3,422 26
Dec. 12	J. E. Hahn at Ottawa, reporting to Col. LaFleche regarding English trip and information secured. Expenses—Sheet No. 4.....		43 50
	J. E. Hahn—1 day.....		50 00
		\$	93 50

1936

Dec. 29	Investigation Canadian sources of supply for materials required in the construction of the Bren Gun; securing Canadian quotations on said materials, Tooling and Gauges, Machinery required etc., and preparing and submitting to the Department of National Defence Proposal "B"		
	J. E. Hahn—12 days at \$35.....		420 00
	A. L. Ainsworth—3 days at \$25.....		75 00
	W. T. West—12 days at \$15.....		180 00
	C. E. Stewart—12 days at \$5.....		60 00
		\$	735 00

1937

Jan. 6	J. E. Hahn at Ottawa conferring with Col. LaFleche <i>re</i> Proposal "B" submitted Dec. 29, 1936. Expenses—Sheet No. 5 attached.....		38 50
	J. E. Hahn—1 day.....		50 00
		\$	88 50

[Mr. Watson Sellar.]

Jan. 11	Completing investigations of sources of material supply and prices of same, tooling, Machinery, etc., and preparing and submitting Plan "A" and supporting Schedules covering manufacture of 12,000 Guns in Canada on basis of Deliveries of 1,000 guns first year, 3,500 guns second year, and 6,000 guns third year and until completion of Contract. J. E. Hahn—10 days.....	350 00
	A. L. Ainsworth—10 days.....	250 00
	W. T. West—10 days.....	150 00
	C. E. Stewart—10 days.....	50 00
		<hr/>
		\$ 800 00
March 30	J. E. Hahn in England conferring with Sir Harold Brown D.G.M.P. and to Mr. Bedford—Assistant Director of Contracts. Further surveys of Bren gun production at Enfield plant. Consultations with Mr. Robinson—Supt. of Plant regarding various phases of gun production. Drafting Contract Agreement as proposed following conferences and discussions with Sir Harold Brown and Colonel LaFleche. Expenses—Sheet No. 6 attached.....	3,591 30
June 21	J. E. Hahn—12 weeks at \$300.....	3,600 00
		<hr/>
		\$ 7,191 30
1937		
Mar. 31	Long Distance Calls—Sheet No. 7 attached.....	14 48
		<hr/>
		\$ 14 48
Sept. 30	J. E. Hahn at Ottawa conferring with Colonel LaFleche regarding proceeding on basis of manufacturing 7,000 guns for Canada only. Expenses—Sheet No. 8 attached.....	32 60
	J. E. Hahn—1 day.....	50 00
		<hr/>
		\$ 82 60
Sept. 30	Long Distance Calls—Sheet No. 9 attached.....	9 39
		<hr/>
		\$ 9 39
Oct. 2	Preparing and submitting Proposal 2—with attached Schedules. 2A—Summary of estimated cost of plant. 2B—Cost of Fixings, Tools and Gauges. 2C—Estimated cost of Bren Gun based on order of 7,000 only. J. E. Hahn—6 days.....	210 00
	A. L. Ainsworth—3 days.....	75 00
	W. T. West—6 days.....	90 00
	C. E. Stewart—6 days.....	30 00
		<hr/>
		\$ 405 00
Oct. 2	W. T. West at Valcartier Examining Ross Rifle Plant, Equipment, reporting on apparent condition of same and the possibility of re-conditioning the machines which might be used in the manufacture of Bren guns. Expenses—Sheet No. 10 attached.....	52 20
	W. T. West—1 day.....	25 00
	W. T. West—2 days.....	30 00
		<hr/>
		\$ 107 20
Oct. 31	Long Distance Calls—Sheet No. 11 attached.....	8 93
		<hr/>
		\$ 8 93
1937		
Nov 9	Preparing and submitting to Col. LaFleche Plan "A"—Estimated cost producing 12,000 Bren guns on basis of deliveries of 1,000, 3,500 and 6,000 guns per annum and necessary machinery, tooling, gauges, etc., for same. Plan "B"—Estimated cost producing 7,000 Bren guns on basis of deliveries of 750, 2,000 and 2,500 guns per annum and necessary machinery, tooling, gauges, etc., for same. Plan "C"—Estimated cost producing Bren guns with minimum plant irrespective of deliveries, and necessary machinery, tooling and gauges for same agreement—Draft incorporating all changes to date. J. E. Hahn—12 days.....	420 00
	W. T. West—12 days.....	180 00
	A. L. Ainsworth—4 days.....	100 00
	C. E. Stewart—12 days.....	60 00
		<hr/>
		\$ 760 00
Nov. 11	J. E. Hahn at Ottawa, conferring with Col. LaFleche regarding Plans "A," "B" and "C" and draft agreement submitted Nov. 9, 1937. Expenses, Ottawa—Sheet No. 12 attached.....	36 65
	J. E. Hahn—1 day.....	50 00
		<hr/>
		\$ 86 65

Nov. 19	J. E. Hahn at Ottawa, further conference with Col. LaFleche regarding plans submitted Nov. 9, 1937. Expenses—Sheet No. 13 attached.....	42 30
	J. E. Hahn—1 day.....	50 00
		\$ 92 30
Nov. 22	Preparing and submitting schedule of projected financial requirements for two (2) year preparation period to Col. LaFleche.	
	J. E. Hahn—1 day.....	35 00
	W. T. West—1 day.....	15 00
	C. E. Stewart—1 day.....	5 00
		\$ 55 00
Nov. 24	Preparing and submitting draft agreements to Ottawa for proposed Canadian and British contracts.	
Nov. 30	Long distance calls—Sheet No. 14 attached.....	9 00
		\$ 9 00
Dec. 20	J. E. Hahn and W. T. West at Ottawa conferring with Col. LaFleche, and Col. Dewar and Lieut. Jolley regarding Plan "A" submitted Nov. 9, 1937. Preparing and submitting and attaching additional schedules giving breakdown of overheads during preparation and production periods and summary of profits accruing from proposed contract. Expenses—Sheet No. 15 attached.....	94 35
Dec. 22	J. E. Hahn—3 days.....	150 00
Dec. 23	W. T. West—2 days.....	50 00
		\$ 294 35
1938		
Jan. 5	J. E. Hahn and W. T. West at Ottawa, conferring with Col. LaFleche and Col. Dewar regarding Plan "A" preparing and submitting revised production cost based on changes proposed. Expenses—Sheet No. 16 attached	63 95
Jan. 6	J. E. Hahn—2 days.....	100 00
	W. T. West—1 day.....	25 00
		\$ 188 95
Jan. 17	J. E. Hahn at Ottawa, conferring with Col. LaFleche, Col. Dewar and Col. Orde, re proposed draft agreements. Expenses—Sheet No. 17 attached	41 80
	J. E. Hahn—1 day.....	50 00
		\$ 91 80
Jan. 24	J. E. Hahn and W. T. West at Ottawa, conferring with Col. LaFleche, Col. Dewar and Col. Orde re proposed contract under Plan "A." Expenses—Sheet No. 18 attached.....	88 15
	J. E. Hahn—2 days.....	100 00
	W. T. West—1 day.....	25 00
		\$ 213 15
Jan. 27	J. E. Hahn in England, conferring with Sir Harold Brown relative to proposed contract for manufacture of 5,000 Bren guns for British Government and completing arrangements for same, subject to Canadian contract being given. Expenses—Sheet No. 19 attached.....	1,188 94
Feb. 16	J. E. Hahn—3 weeks at \$300.....	900 00
		\$ 2,088 94
1938		
Jan. 31	Long Distance Calls—Sheet No. 20 attached.....	30 40
		\$ 30 40
Jan. 31	Long Distance Calls—Sheet No. 21 attached.....	9 75
		\$ 9 75
Feb. 9	W. T. West in Ottawa conferring with Col. Dewar regarding advice to of change in English cost and change in Canadian Cost estimates on that basis. Expenses—Sheet No. 22 attached.....	57 15
Feb. 10	W. T. West—2 days.....	50 00
		\$ 107 15
Feb. 28	Long Distance Calls—Sheet No. 23 attached.....	57 42
		\$ 57 42
Feb. 28	Cables—Sheet No. 24 attached.....	10 86
		\$ 10 86

[Mr. Watson Sellar.]

Feb. 18	Letters to Col. LaFleche with suggested amendments to British Contract. J. E. Hahn— $\frac{1}{2}$ day.....	20 00
	C. E. Stewart— $\frac{1}{2}$ day.....	2 50
		\$ 22 50
Feb. 23	J. E. Hahn and W. T. West at Ottawa conferring with Col. LaFleche, to Col. Dewar and Col. Orde, <i>re</i> proposed Contract. Expenses—Sheet	
Feb. 26	No. 25 attached.....	111 00
	J. E. Hahn—4 days.....	200 00
	W. T. West—1 day.....	25 00
		\$ 336 00
Mar. 5	Preparing and submitting to Col. LaFleche, Schedule of rates of Minimum Wages to be paid under proposed contract. A. L.	
	Ainsworth— $\frac{1}{4}$ day.....	6 25
	W. T. West— $\frac{1}{4}$ day.....	7 50
	E. C. Stewart— $\frac{1}{4}$ day.....	1 25
		\$ 15 00
1938		
March 14	J. E. Hahn at Ottawa Conferring with Col. LaFleche, Col. Orde and to Col. Dewar regarding final details of Canadian and English Contract.	
March 18	Expenses—Sheet No. 26 attached.....	76 80
	J. E. Hahn—5 days.....	250 00
		\$ 326 80
Mar. 23	Letter to Col. LaFleche enclosing signed agreements and exhibits referred to with Canadian Government.	
June 15	Account with Plaxton & Co. Professional Services—Sheet No. 27 attached.....	6,500 00
May 12	Account Blake, Lash Anglin & Cassels, Professional Services. Sheet No. 28 attached.....	756 39
		\$ 25,171 12

Mr. BERCOVITCH: If you are going to put that statement on the record, or a summary of it, the letters from General LaFleche should also go on the record.

Mr. MACNEIL: That is on the record now.

Mr. BERCOVITCH: Is it on the record now, the letter from General LaFleche?

The CHAIRMAN: Yes.

Mr. SLAGHT: What do you want to put it on twice for?

Mr. GREEN: Is that clear? Is that summary on the record?

The CHAIRMAN: Yes, it is taken as read and placed on the record.

Mr. GOLDING: Why not put in General LaFleche's letter of rejection? I think it should also be there.

Mr. MACNEIL: Yes.

Mr. GREEN: Also put on General LaFleche's letter of April 3rd?

The CHAIRMAN: Yes, I think we had better do that. Those letters will be entered in the record.

APRIL 3, 1939.

Dear Mr. BURGESS,—With reference to your letter dated April 1st, in which you ask to be furnished with certain information respecting the Bren gun contract, including the following:—

1. Amount the government is responsible for, as well as actual expenditures, under section 3, paragraph (e), clause 1.

2. What additional plant has been approved by the government under section 5, paragraph (r).

3. What interest on bank loans the government has paid under section 5, paragraph (r).

I would advise as follows:—

1. The government is responsible for an unknown amount not exceeding \$20,000, but subject to the control of the department. There have been no expenditures to date.

2. No additional plant has been approved by the government under section 5 (r), nor has any request been received from the John Inglis Company for any such approval.

3. No interest on bank loans has been paid; and as no approval has been given to the company, the government is not responsible for any amount.

The remaining information will be furnished immediately it becomes available.

Yours sincerely,

(signed) L. R. LAFLECHE.

APRIL 5, 1939.

Dear Mr. BURGESS,—I acknowledge receipt of your letter of April 4th, advising that the committee desires information with respect to claims made to the Department of National Defence under section 3, paragraph (e), clause 1, of the Bren gun contract, as follows:—

- (a) What claims have been made to date.
- (b) What claims have been approved by the department.
- (c) What claims have been rejected by the department.

The following is the information:—

- (a) One.
- (b) None.
- (c) One.

Yours sincerely,

(signed) L. R. LAFLECHE.

Mr. McPHEE: When was this account of Major Hahn's put before Mr. Justice Davis; was it put before him in the form of an exhibit? If so, what is the number of the exhibit?

The CHAIRMAN: That is in exhibit No. 262.

Mr. McPHEE: The account and everything?

The CHAIRMAN: The accounts and the vouchers, the total account and the vouchers is exhibit 262 before the Davis commission.

Mr. SLAGHT: Then, Mr. Chairman, I object to the expense of re-printing and reproducing an exhibit before Mr. Justice Davis, because under the terms of our reference it is already an exhibit before this committee.

Mr. MacNEIL: Only the summary.

Mr. SLAGHT: Are we going to go on spending the taxpayers' money printing and re-printing?

Mr. GREEN: No, we are going to ask about paying Hahn \$50 a day on these trips to Ottawa and the like.

Mr. SLAGHT: You may think so, the government does not think so. If that is your philosophy, put it into practice; the government have refused to put it into practice.

Mr. BROOKS: They haven't made any final decision on it yet.

Mr. MacNEIL: The claim was withdrawn.

Mr. McCANN: It was rejected.

The CHAIRMAN: In commenting on the statement of the hon. member for Parry Sound; we have followed the general policy in our procedure of permitting the re-printing on this record of practically everything, within some limitations, that any member has asked to have printed. I do not think we could very well change that policy now.

[Mr. Watson Sellar.]

Mr. BEAUBIEN: I do not see any necessity for putting that claim in and cluttering up records with a claim like that which was presented and rejected, and withdrawn by Major Hahn. I think we are simply wasting time and wasting space on our record.

The CHAIRMAN: As matters stand now, that statement has already been read into the record.

Mr. McCANN: You can read a whole newspaper into the record, if you want to. Do you think that would be an acceptable procedure?

The CHAIRMAN: You will remember that I said, within certain limitations, we have already permitted much to be printed on the record.

Mr. McCANN: What is the object, what is the justification of putting it on the record of this committee when it is already properly before us?

The CHAIRMAN: For the reason that up to the present time, within reasonable limitations, we have permitted the reading into the record of legal documents which took up much more space than the one which is in front of us at the moment.

Mr. McCANN: That does not justify this.

Hon. Mr. STEWART: If you will permit me; I think your suggestion is one that is eminently fair, and I think that we have adopted the practice that has been very regular of reading into the record exhibits and extracts from evidence. Now, surely at this stage it is no use in saying that you must not read this, or you cannot read that into the record. I think it is fair to have this particular item placed on the record, together with any correspondence, as you have suggested, that may relate to the rejection of the claim by the Department of National Defence, or its withdrawal.

The CHAIRMAN: Just a moment, I would like to reply to the point raised by Dr. McCann. It was agreed by our sub-committee, the steering committee, on which my friend Mr. Green and three or four other members of the committee serve, that we would ask members to confine themselves to documents of reasonable length to be read into the record. Am I right there, Mr. MacNeil?

Mr. MACNEIL: Yes.

The CHAIRMAN: We agreed to that, and I must say that I think the members of the committee by and large have pretty well carried that out.

Mr. BEAUBIEN: You are going entirely away from that attitude which you have taken by putting into the record a document which has been rejected by the Department of National Defence and withdrawn by the party who put in the claim.

Mr. BROOKS: It is just the same as the others.

Mr. BEAUBIEN: It is absolutely non-existent.

The CHAIRMAN: May I also say to my hon. friend that that document has been tabled here. It can be read into the record in part.

Mr. BEAUBIEN: I have no objection to putting documents which exist into the record and which have any connection with the inquiry. This has been rejected and it has been withdrawn.

The CHAIRMAN: We will now adjourn until to-morrow morning at eleven o'clock, but we cannot continue then with the present witness owing to the fact that we decided in the steering committee last night to arrange for Major Hahn to appear as a witness to-morrow.

Mr. MACNEIL: Has he accepted? Is he willing to come?

The CHAIRMAN: Yes. So Major Hahn will be a witness to-morrow morning; and we shall have to recall Mr. Sellar on some other date.

The committee adjourned at 1.02 p.m., to meet again on Thursday, May 4, at eleven a.m.

APPENDIX

STATEMENT OF EXPENDITURES AS AT APRIL 29, 1939, RELATED
TO THE PRODUCTION OF BREN MACHINE GUNS
CANADIAN CONTRACT

Progress Payments to John Inglis Company in
accordance with terms of the contract
as per statement attached..... \$ 129,727 34

Machinery

Canadian Fairbanks Morse Co.	\$ 38,168 79	
F. F. Barber Machinery Co.	15,494 67	
John Bertram and Sons Co. Ltd.	11,313 17	
Williams and Wilson Ltd.	26,727 33	
A. R. Williams Machinery Co. Ltd.	1,143 33	
Canada Machinery Corporation	1,360 33	
Walker Metal Products Ltd.	4,456 67	
J. H. Ryder Machinery Co.	21,197 90	
Miscellaneous	4,391 98	124,254 17

Payment to British Government of Canadian portion of licensing fee and charges for technical assistance	16,220 60
Expenditure on account of Departmental Administration ...	10,692 27
Sundries	604 62
	<u>\$ 281,499 00</u>

DISTRIBUTION OF EXPENDITURE ON DEPARTMENT OF NATIONAL DEFENCE
CONTRACT, P.C. 561, OF MARCH 22, 1938

John Inglis Company Limited, Toronto.

Total Payments on Canadian Contract to April 22, 1939.

Contract Item	Detail	Profit	Non-Profit
<i>A—Salaries and Wages</i>			
5 C & F	Wages for Indirect Labour (clerical, advisory and supervisory) including salaries of executive officers of firm.	\$ 42,713 65	
5 E	Technical advisers and engineering assistance specially furnished by others.	177 33	
<i>B—Maintenance Charges</i>			
3 G & 5 I	Alterations, additions, repairs and maintenance of buildings.	6,615 05	
3 G & 5 I	Repairs and maintenance of machinery and plant equip- ment.	16,333 12	
5 N	Insurance.	422 16	
5 H	Light, Heat, Power and Gas.	3,748 17	
5 H	Telephones, telegraph, postage and excise stamps.	730 07	
5 H	Printing and stationery and office supplies.	2,682 23	
5 P	Municipal, school, business and special taxes.	3,161 09	
5 S & 3 E 4	Miscellaneous charges.	3,596 95	\$ 521 52
<i>C—Stores and Equipment</i>			
5 G 2, } 3 E 2 & 3 }	Perishable and special tools, jigs, dies and gauges or materials therefor.	30,326 01	
3 E 2 & 3 }	Machinery or plant equipment.	252 30	1,764 38
5 M	Customs duties and sales tax on purchases.		2,403 73
<i>D—Travelling Expenses</i>			
5 J 1	Travelling expenses of employees of the firm.	2,912 52	
		<u>\$113,670 65</u>	<u>\$4,689 63</u>
	Add Non-Profit column total.	4,689 63	
	Plus 10 per cent on Profit column total—Profit.	11,367 06	
	Total Paid.	<u>\$129,727 34</u>	

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Canada - Public Accounts, 1939
Ottawa, 1939
15

SESSION 1939

HOUSE OF COMMONS

(STANDING COMMITTEE)

ON

(PUBLIC ACCOUNTS)

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN

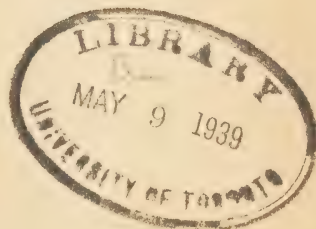
AND OTHER ARMAMENT CONTRACTS

No. 15

THURSDAY, MAY 4, 1939

WITNESS:

Major J. E. Hahn, President,
John Inglis Co., Limited



OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

MINUTES OF PROCEEDINGS

THURSDAY, May 4, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. FRASER, presiding.

Members Present: Messrs. Ahearn, Anderson, Bercovitch, Brooks, Brown, Douglas (*Weyburn*), Factor, Fleming, Fraser, Golding, Green, Heon, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McKinnon (*Kenora-Rainy River*), McPhee, Marshall, Patterson, Purdy, Rickard, Slaght, Stewart, Thauvette.

In attendance: Major J. E. Hahn, President, John Inglis Co. Limited, Toronto, Ontario.

In accordance with the decision reached by the Sub-committee on Agenda at a meeting held on May 2nd, Major Hahn was called.

Major Hahn read a prepared statement, setting forth the reasons for the acquisition of the John Inglis properties as well as a resumé of the negotiations leading up to the existing contract, and was questioned thereon.

The Committee adjourned until Friday, May 5, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 375,

Thursday, May 4, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we now have a quorum; so if you will come to order, we will begin. Major Hahn is here this morning. Will you come up to the front, Major Hahn?

Gentlemen, like the other witnesses, apparently, Major Hahn has also prepared a statement to begin with; and if it is the pleasure of the committee, I shall ask him to read it, and we will get started in that way. Is that satisfactory?

Some Hon. MEMBERS: Carried.

MAJOR J. E. HAHN, President, John Inglis Co. Limited, called.

The WITNESS: Mr. Chairman and members of the Public Accounts committee, I would like to present to you concisely and in an orderly fashion my interest in and the reasons for the acquisition of the John Inglis properties, as well as a resume of the negotiations leading up to the existing contract.

My business experience prior to becoming interested in the John Inglis Co., is fully covered in pages 2804 to 2812 of my testimony given before the commissioner. The statement that has been made before the house, that I and my company went into a receivership, is not correct. One company in which I was interested had difficulties during the depression, but these difficulties were solved in a constructive manner; all the products involved, DeForest Crosley radios, Norge refrigerators, are still on the Canadian market and are well and favourably known throughout Canada. It is quite clear from the evidence that I have referred to, and from the commissioner's report, that the business I was interested in became a large concern under my direction, and was financially successful until the beginning of the depression in 1930; that an arrangement was entered into with one of our competitors and that I assisted materially in the financing of the entire transaction, even to the extent of assisting and guaranteeing the bank loans of the other company involved. The evidence also clearly indicates that while there was a composition for a relatively small amount with suppliers who had received over \$9,000,000 business, they have received approximately \$5,000,000 of business since this arrangement. This transaction, as I have indicated before, has been repeatedly distorted into the statement that I, or my company, had gone into receivership, a statement which is not founded on fact.

In June, 1936, I was approached by Mr. Herbert Plaxton, who was acting as solicitor for Cameron, Pointon and Merritt, who at that time had already interested themselves in the possibility of purchasing the assets of the old John Inglis Co. He mentioned to me that the Inglis company, which was then closed down and was in the hands of the receivers for the bondholders, was available, and in view of the fact that Mr. Cameron and he had heard I was thinking of going back into the manufacturing business, they wondered if I would be interested. I made several visits to, and inspections of this plant during the month of July, 1936, including a complete inspection of the records of the old company. Mr. West, who had been secretary-treasurer of the old John Inglis Co. for 26 years, was looking after the property for the interim receivers, and was able to make available to me all the information that I required.

I analysed the company's business from 1913 to 1935, and found that in the 23 years the company had transacted approximately \$27,000,000 business, or an average of over \$1,100,000 a year, with a very satisfactory earning record, having lost money only in the four years of the depression, from 1932 to 1935. I found that the old company enjoyed a great deal of good will among its many customers, and had a wonderful reputation for the quality of its products. I also found from the company's sales records that the low point in its sales had been reached in 1933, and that the years 1934 and 1935 already indicated a sharply ascending sales curve. I found that there were two main contributions to the company ceasing activity in 1935. The first was the death of the late William Inglis. In addition to this \$1,100,000 had been taken out of the company in 1922 by shareholders who retired from the business.

With regard to the physical assets, I found what I considered an exceedingly valuable plant, which the records show had been built up at an original cost of \$1,843,257.57. I also found two appraisals, one dated February, 1922, which showed a replacement value of \$1,783,000, and another appraisal of October, 1929, showing a replacement value of \$1,777,000. Both these appraisals were exclusive of land, patterns and drawings, the land being carried on the books of the former company at \$80,000, and the patterns and drawings being shown on the books of the old company at \$94,000, after depreciation. In other words the 1929 appraisal, with the addition of the patterns and the land, would show a replacement value of very nearly \$2,000,000. I found that the insurance carried by the old company was \$1,500,000, which was reduced by the trustee to \$1,250,000, after the liquidation of the company's inventories. I also found that the plant and equipment was carried on the books of the old company at \$1,289,418.68. It was obvious that the buildings and machinery had been well maintained and that all the equipment was in excellent and usable condition. There were three maintenance men at the plant at the time I made my first inspection, and this number was increased to eight at my request, in the fall of 1936.

I immediately ascertained that almost the entire key personnel of the old company would be available if the company were re-opened. This was logical in view of the fact that most of the employees of the old company had regarded the company as an institution, and some had purchased their homes in Toronto. Upon the business ceasing operation, they were forced to find employment in other parts of the province. It was made known to me that if I would make the purchase, the big majority of these men were anxious and willing to resume operations in the plant with which they had been so long identified. In other words, I would not only have the physical assets of this company, but also almost the entire trained key personnel, some of them having had experience in the plant for a period of nearly thirty years. Those of you who visited our plant, met or saw Mr. West, who was secretary-treasurer of the old company for 26 years; Mr. Smallwood, our sales manager of the commercial division, who was sales manager of the old company subsidiary for 12 years; Mr. McKenzie, our chief engineer of the commercial division, who was an engineer of the old company for 15 years; the foreman of our machine shop was foreman of the machine shop of the old company for 26 years; and the foreman of the plate shop in which you saw the large annealing ovens being constructed, was foreman of that shop for the old company for 29 years; in the forge and flange shop you saw the foreman there who had been in charge of that shop for the old company for 27 years. These are just a few of the key personnel that I refer to particularly. In fact nearly all the men whom you saw working at the machines of the present John Inglis Co., in the commercial division were men who had spent many years operating those very same machines with the old company.

An analysis of the company's business indicated that the old company, which had been founded in 1860, had, like most other businesses over a long period of time, diversified its activities until this fine old company had become

[Major J. E. Hahn.]

closely identified with the basic industries of Canada. Its main business at the time of ceasing operation, was building machinery for the mining industry, for the pulp and paper industry, for power developments, having built a great many of the water turbines that are in use in Canada to-day, and had brought into its scope a wide range of machinery and equipment so that the manufacture of boilers formed only a small portion of the company's total business. In other words, I was investigating an industry whose future was and would be closely identified with basic industries and the future development of Canada.

I saw in this enterprise that I have outlined to you, a substantial commercial undertaking whose products were established throughout Canada, and which enjoyed an enviable reputation. I believed that this industry could be quickly rehabilitated and restored to the leading position the old company previously occupied in its field. I believed that the prospective commercial business available would form the basis of steady future earnings. It was also apparent that this important undertaking could be purchased at a price that represented a fraction of its worth. It was obvious to me that the main thing required was management and working capital, together with a sound operating plan.

Some time in July or August, 1936, I told Mr. Cameron that I would be interested in the purchase on the basis of having controlling interest and that I was prepared to provide my share of the necessary money required for both purchase of the plant and the necessary working capital for its operation. In the discussions I was given to understand that Cameron, Pinton and Merritt would provide their share of the money required for the purchase and additional working capital. Plaxton & Co., who had been doing the legal work for this brokerage firm, were given the legal work of the incorporation of the new company, and it was my understanding that Mr. Bert Plaxton would take a financial interest in the company and later on I was given to understand that his brother Gordon had become interested. I would like to point out at this juncture that these gentlemen were simply providing a portion of the financial requirements for the new set-up.

As operating associates I had in mind men who had been associated with me previously and with whose experience and capabilities I was thoroughly familiar. You have had the opportunity of meeting some of my operating associates, such as Messrs. Ainsworth, McLachlan and Gazey, whom I knew to be competent organizers, thoroughly conversant with planning and production involving large and intricate manufacturing programs. These men, including Mr. Gillespie, chief engineer of the ordnance division, together with almost the entire key personnel of the old John Inglis Co., constitute the operating personnel of our company. Between us we had a wide experience in the planning, organizing and putting into production of large manufacturing programs and this is particularly true of the experience we have had in the specialty industry where the release of annual models requires the laying out of an annual tooling and manufacturing program, that must be executed to a definite time schedule. I have only one statement to make with regard to these executives, in view of the innuendoes that have been levelled at them. These men are organizing the manufacture of the Bren gun on a basis that will produce it in a substantially shorter period of time than it has been produced anywhere else in the British Empire.

While the legal formalities of the purchase were being consummated, commercial budgets were being prepared wherein a five-year plan was being projected. This plan was based upon the company reaching, in a period of five years, the million-dollar average business which had been averaged by the old company. This budget is in effect to-day and I am glad to be able to inform this committee that our projected budget for the first year's operation, which has just been completed, namely, the taking of orders to the amount of \$150,000, commercial business, has just about been realized. Our com-

mercial budget contemplates a volume of business during the first five years of operation, of nearly the volume of our ordnance business, and we see no reason whatever, depending upon the general business conditions of this country, why our objective will not be reached. During the investigation of the old company's business, I found that during the last war the company was one of the major producers of munitions in Canada, having produced over four million shells, and assembled airplanes in the north plant. It was obvious to me that the plant, with the combined facilities of the machine and plate shops, in its existing state, was suitable for the manufacture of certain types of munitions, having in mind particularly shells, tanks and bombs. It would also be obvious that additions might have to be made to those facilities for certain specialized equipment, although it is apparent to those of you who have inspected this plant, that certain munitions can be manufactured in the existing plant without the addition of a single machine.

In view of the old company's munitions' activity and my knowledge at that time that a shell order was being placed in Canada from Great Britain, I decided after this commercial budget was projected, that our program would include munitions business if it could be obtained. The economic advantage of such business during the time we were establishing our commercial business, must be obvious without any further discussion. I would like to point out at this juncture, however, that it was the commercial possibilities of this business that induced me to purchase this plant, and the future commercial business of this company provides the long range possibilities for its earning power and not the munitions business.

I decided to go to England to follow up the munitions opportunities which, I understood, were available, and asked Mr. Hugh Plaxton if he could arrange an introduction to the Department of Defence so that I could get the necessary introductions to facilitate the purpose of my English visit. I would like to point out at this juncture that I was not sent over to England by anyone, that I decided to go on my own initiative, without any suggestions or requests from the Department of National Defence, the officials of which I had not up to this time had the pleasure of meeting.

I would also like to point out at this time that the possibility of Canadian munitions business seemed very remote, the only activity apparently being in England. When I was introduced to General LaFleche, I told him the purpose of my visit, and at the time I saw the Bren gun in his office. On account of my familiarity with firearms, I became very interested, particularly when I learned that this was a new weapon that had been adopted by the British army, and would likely be adopted by the Canadian forces. I was told at that time that the Canadian situation had not yet crystallized, and therefore at the time the entire possibilities for munitions business lay in England. I requested that the gun be sent to Toronto for examination, and was given to understand that this would be done. The gun was examined by me in Toronto. From this I obtained some idea of its construction and a general idea of the tooling and manufacturing program involved.

Following this examination I again went to Ottawa where I had a further discussion with General LaFleche, at which time I told him that I would investigate the possibilities of the Bren gun while I was in England, and would be glad to furnish him with all information that I obtained, without any obligation on the part of the Department of National Defence, should they decide to manufacture the gun themselves. I would like to record this fact, because it is a fact, regardless of how lightly it may be disposed of and discounted for motives upon which I will not comment. Upon the occasion of this visit, I met the Minister of National Defence, the Hon. Ian MacKenzie, and requested a letter of introduction that would facilitate the purpose of my intended visit, namely to secure munitions business for this company. I would ask you to

[Major J. E. Hahn.]

note that the letter which I received from the Hon. Ian MacKenzie stated that I was "in England to investigate the manufacture of all classes of munitions and armaments," and requested that I be afforded "every facility and access to enable him to ascertain and bring back complete manufacturing data and costs covering the manufacture of munitions and armaments." I did not ask for a letter of introduction that dealt specifically with the Bren gun, because the Bren gun had only arisen as a possibility when I first saw it in Ottawa, and I did not at that time have any idea what the possibilities were with regard to the manufacture of this gun, insofar as our company was concerned. I was still thinking in terms of shells, tanks, airplane assembly and other types of munitions for which facilities existed at our plant. I would again like to emphasize at this juncture that it was not a question of being sent to England by the Department of National Defence; it is perfectly clear that I had decided to go to England and had requested the Department of National Defence to afford me such facilities within their power to assist me in the purpose of my trip.

I left for England on October 26th, 1936. Prior to leaving we had arranged to pay Mr. Hugh Plaxton's expenses to come along on this trip. Mr. Gordon Plaxton, who had by this time become a member of the group, came along with us. After arriving in London and giving the letter of introduction to Mr. Massey, we were given to understand that an appointment would be arranged at the war office, and after some considerable delay, during which time I telephoned the Hon. Ian MacKenzie, I was notified that an appointment had been arranged with Sir Thomas Inskip, Minister for the Coordination of Defence.

Mr. Hugh Plaxton was present at this interview with Sir Thomas Inskip. At this interview I stressed both the possibility and the importance of utilizing Canada as a secondary source of supply for munitions. The geographic advantages were pointed out, as well as the necessity of coordinating the resources of the Empire sufficiently in advance of any possible contingencies.

MR. FACTOR: Major Hahn, would you mind going a little slower? Some of the members are having difficulty in following you.

THE WITNESS: Certainly; I am sorry if I have been going too fast. Continuing:

I urged this very strongly, particularly in view of my experience overseas in the first few years of the last war, where the lack of such preparation and its disastrous results, was apparent to those of us who were in the field in the early part of the Great War. Sir Thomas seemed interested, and I was told that an appointment would be made with Sir Harold Brown, Director of Munitions Production.

This appointment with Sir Harold took place about the middle of November, 1936. I had with me at this interview a book of photographs showing the Inglis plant in its closed down condition, which was placed before the commissioner as Exhibit No. 328; also the 1929 appraisal, exhibit No. 297, and a large scale set of blueprints showing each building of the plant and showing each machine in each building and the type and capacity of every machine. The photographs and blueprints were gone over in a general way with Sir Harold and he requested me to turn all this material over to Mr. Whitham, Director of Industrial Organization, which is one of the branches of the war office. I suggested Canadian references with regard to myself and the company that I was organizing, and I might state here that to my definite knowledge an investigation was made by the war office in Canada of myself and my proposed activities.

In my discussion I covered substantially the same ground with Sir Harold as I had covered with Sir Thomas Inskip in connection with Canada's suitability as a safe second source of supply. It was apparent to me at the time of this interview that they were at that time interested in a second source of supply for the Bren gun, and I had reason to believe that they were seriously considering

setting up that source of supply in England. The impressions I gained at that time are confirmed by the letter of Birmingham Small Arms dated January 13, 1937, Exhibit No. 120, addressed to the office of the High Commissioner of Canada, which shows without question that I was at that time competing with a British company for this order of 5,000 guns, which I ultimately diverted to this country.

It is a fact that I arrived in England just at the time a secondary source of supply for the Bren gun was being considered by them, and it is also a fact that this secondary source which they were considering was to be located in England. While my arrival happened to coincide with the time that the second source was being considered, it is perfectly clear that on my own initiative I immediately proceeded to try and have that second source diverted to Canada, and was ultimately successful in having this consummated.

The war office expected that their order, if placed in Canada would be supplemented by the Canadian requirements, so that they would also receive the benefit of the resulting lower production cost.

Upon the conclusion of my first interview with Sir Harold Brown, I spent somewhere between a week or ten days at Enfield, making the necessary study of the operations and obtaining sufficient data to translate the British estimates of cost into Canadian estimates of cost. I would like at this point to emphasize that I at no time knew I had been appointed representative of the Canadian government to overcome the technical objection of providing a contractor with costs and other secret data. It was perfectly clear at all times to Sir Harold Brown that I was there in the capacity of a private contractor, looking for business on behalf of my company.

After my investigation at Enfield, and in view of the consideration that a second English source of supply for the Bren gun was receiving, I had further discussions with Sir Harold Brown and again urged the consideration that this second source of supply be set up in Canada, in view of all the factors that would merit the consideration of such a step. It was at this point that I suggested that the war office place an order for 5,000 Bren guns with our company.

In view of the large capital expenditure involved in tooling and the highly specialized equipment that it was obvious would be required to manufacture the Bren gun, I, upon my own initiative, suggested that if such an order were entertained for our company, the war office should consider paying a substantial portion of the capital expenditure involved. These proposals with regard to the order and the contribution to the Canadian capital expenditure are indicated in my letter of November 19, 1936, to Sir Harold Brown, Exhibit No. 103. I would like to point out that these negotiations were initiated by myself, and having regard to the order later placed by the Department of National Defence, resulted in a saving to Canada of approximately \$600,000 in capital expenditure alone, quite apart from the additional saving of approximately another \$700,000 that will result from the increased production by virtue of the English order.

I would like to point out, gentlemen, that I am now discussing figures, where the first amount, namely \$600,000, is not a saving that we might make, or that someone else could have made, but it is a saving that is an accomplished fact to this country, the credit for which can be rightfully taken by the John Inglis Company. Might I point out that the saving on this capital expenditure alone, which has been consummated by me and my company, is nearly three times the possible profit that the John Inglis Company can make under this contract, and when the total saving is considered, it amounts to over $5\frac{1}{2}$ times the possible profit that can accrue to this company. In the face of these facts, how can any honest man say that this type of contract is not in the interests of Canada? Yet we have heard very little about this feature of the contract. All we have heard is what someone else might have done or could have done. This company

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has received very little credit and very much abuse for what it has done. We are not asking for credit, but we are certainly entitled to some element of fairness in connection with this transaction.

On my return to Canada in December, 1936, I wrote advising the results of my investigation of the manufacture of the Bren gun in England. From then on I forwarded several proposals which contemplated the manufacture of the Bren gun in Canada. At this point I would like to point out Exhibit No. 11, my letter to the Department of National Defence, dated December 29, 1936, about which we have heard very little. In this letter I stated in part as follows:—

We believe, however, that suitable space for this enterprise should provide the following:—

- (1) A factory that is extremely well lighted by daylight as the operations require working to limits within one-thousandth of an inch.
- (2) A factory that can be economically maintained at the required temperature to provide proper facilities for economically carrying out these fine operations.
- (3) A factory that can be completely isolated, and the space not part of another building, in view of the nature of the enterprise, so that it can be adequately guarded and a proper check made of all personnel and equipment at all times.

I would ask you, gentlemen, to pay particular attention to this statement, which I made in the letter of December, 1936, and would ask you to recall whether or not these provisions that I considered essential for the economic carrying out of this undertaking, impressed themselves upon you during your visit to our plant. I would point out to you there is nothing in the contract that obligated us to provide such a special building, with the special facilities that have been provided by this company and at the company's expense. I would ask you to remember that this is a cost-plus contract, and if this company were not acting in the best of faith, it would certainly not be interested in providing at its own expense, special facilities that are conducive to and ensure the most economical method of the carrying out of this contract. Again, being on a cost-plus basis, when the contract was still only a possibility, I arranged in 1937 for the services of one of the best production experts in the British Empire to help us carry out and execute the contracts. We have also sent the key personnel, and, in addition, all the foremen of their respective departments to England, to undergo a course of training. This contract, I think you will be interested to know, is being carried out and executed by a group of returned men who have a very definite idea of their responsibility in connection with the performance of this contract.

Mr. HOMUTH: Mr. Chairman, I think a lot of the material that is being given is irrelevant. It sounds more like a political speech.

Some Hon. MEMBERS: Not at all.

The WITNESS: I am going to ask that this be read.

Mr. McPHEE: Go ahead.

Mr. GREEN: I wonder if Major Hahn could read slower; it is really very hard to follow.

The WITNESS: I am sorry. I am trying to get through quickly to save your time.

I have said before this is a cost-plus contract. By this time you are familiar that there are some 15,000 tools, dies, fixtures, and gauges that have to be made before the first gun can be produced. It has also been indicated to you that there are over 160 parts of this gun that require 2,500 operations

to produce. In view of these facts and the fact that machine guns have never before been produced in Canada, in view of the fact that the costs were not known at Enfield at the time that these investigations were made, and even at the time this contract was signed, how could any Canadian manufacturer have submitted a tender or a firm bid. In order to protect himself he would have to include tremendous safety factors. Any firm price submitted by the contractor would have to contain safety factors that would protect him against all the possible errors and contingencies that are bound to arise in the production of 15,000 tools, dies, jigs, and gauges, and an additional 2,500 operations for each gun. Such a price certainly could not be entertained by any government.

Or, to put it another way, assuming that any manufacturer had made a firm bid that allowed a reasonable profit in addition to his cost, say, estimated 10 per cent, how quickly would his profit disappear and be turned into a tremendous loss, if he were only out 1/100 of 1 per cent on each of these 15,000 preliminary items and each of the 2,500 operations.

I believe if I had suggested any other basis than a cost-plus basis on an item of this kind, that all confidence would have been immediately destroyed, both here and in England, in the company which I represented. I do not believe that this committee can get any reputable manufacturer to state that he could have made a firm bid on the Bren gun, at a time when the costs of the gun were not known, unless, as I have previously indicated, it was so loaded with safety factors for the manufacturer that it would have represented an impossible price for any government to consider.

No definite action was forthcoming following the proposal submitted by me to the Department of National Defence. I became very concerned as to the possibility of the secondary source of supply, which was under consideration in England while I was there in November, 1936, being established in England rather than in Canada, in view of this delay, with the result that we would lose the British order for Canada. I also had other matters that were of interest to me in England and as a result I left for England the end of March, 1937. The other matter that I referred to was disposed of within the first week or so of my arrival in England. I had further conferences at the war office and at Enfield in April, 1937, which was covered by the report I made to General LaFleche under my letter of May 1, 1937, Exhibit No. 136. It was obvious that the war office was still interested in the initial proposal that I had made and considered it likely that such a scheme would be acceptable and that an order for 5,000 guns would be placed with our company, as suggested by me. I stayed in England until the arrival of General LaFleche and had further negotiations with the war office, at which time I made the arrangements for the sending out of a technical man in the event of an arrangement being consummated. Proposals were left by me with the war office, covering our estimates for the manufacture of 5,000 guns for them. These negotiations were extended until some time in June, 1937, at which time I was advised that notification would be sent to us upon the final consideration by the war office of the scheme I had suggested. It was indicated at that time that should they desire to proceed, it would be necessary for me to return to conclude the negotiations in detail.

No definite word was received until a cable from the war office, dated November 9, 1937, which stated that the war office was now ready to negotiate for the manufacture of 5,000 Bren guns to be manufactured by the John Inglis Company, subject to some substantial reduction in cost, and requesting that a representative proceed early to England for negotiation. In other words, this is the evidence of the negotiations that had been carried on by myself on behalf of the John Inglis Company, which had now crystallized into a contract that could be consummated for the company, which, if Canada cared to take advantage of it, would at the same time effect a saving in capital expenditure for Canada

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of approximately \$600,000, and an initial saving of approximately \$700,000, by virtue of reducing the requirements to Canada. I again would like to emphasize the fact that this was a concrete accomplishment that was affected by the initiative and enterprise of the John Inglis Company, and I ask this committee in all fairness to this company to make a finding accordingly.

The final "Plan 'A'" was submitted by us to the Department of National Defence and was gone over in detail with officials of the Department of National Defence in the month of December, 1937. I was given to understand the matter would be placed before the interdepartmental committee and I requested an interview in view of the fact that the proposed opening of our plant had been constantly delayed on account of the unexpected course these negotiations had taken, and also on account of the unforeseen element of time and delay that had been introduced into these negotiations. Our business, as you now understand, is a contract business. It will be obvious to those of you who visited our plant, that it would have been unsound for me to open up this large plant and put it into operation unless I, as controlling owner, were there to supervise such an activity.

It is just ordinary horse-sense that when I saw the potentialities of the munitions business that might be available to this company, I aggressively followed up the potentiality that I saw, and to carry it through, if possible, to a definite conclusion, even though it delayed the opening up of the plant for commercial operations for six months, or even a year. It was simply sound business and that is the course I decided to take. I would like to point out at this juncture to those who have suggested that our plant did not actually open until April, 1938, that long before this contract was signed, we had made commitments of \$350,000 for the operation of the John Inglis Company, and at the time this contract was signed we had already put into the company \$160,000 of that commitment. While I am on this subject, I might also point out that to date \$330,993.78 of this commitment has been paid, in cash, by the original members of this group and I believe only 3,000 odd shares, representing approximately \$20,000, have been re-sold by one of the original members of the group.

In view of the fact that we were reopening a new plant and had organized new companies, I suggested that I appear before the interdepartmental committee to explain to them any phases of our set-up that they might be interested in. I would like to point out that I was in Ottawa for every meeting of the interdepartmental committee, ready and anxious to be called before this committee, to give them any information that they might desire.

I decided to go to England the end of January, 1938, after the question of tender was raised by the interdepartmental committee, and after further delays that I felt were seriously jeopardizing the entire situation and creating a strong possibility of the order being lost not only for our company, but for Canada. A series of conferences were held with the war office, between February 3 and February 9 of 1938. A resume of these conferences is fully covered in Exhibit No. 223, dated February 3, and a memorandum from Mr. Loggie, Exhibit No. 224, dated February 10, 1938, in which he states that he attended at the war office at their request on the 2nd of February, 1938. He was shown two cablegrams which had just been received from the deputy minister. He was shown a rough draft of Sir Harold Brown's reply, in which he emphasized the immediate completion of a satisfactory agreement and mentioned the fact that a firm which had carried out technical investigations obviously had the advantage, or words to that effect. Sir Harold also mentioned that should further delays occur, a serious situation would arise in that the Enfield plant would be idle, or nearly so, before a Canadian entered production. He felt that unless immediate action were taken by the Canadian authorities, the war office might be obliged to withdraw from participation in the scheme. Colonel Loggie also states, "I took occasion to ask

him that in the event an auxiliary source of supply was established in Great Britain whether tenders would be invited or a suitable firm selected?" He said, "We would select a firm."

In the same memorandum he also stated:—

"In regard to the new developments referred to in paragraph 4 above, (the suggestion for calling for tenders) both Sir Harold Brown and Mr. Gordon expressed very definite opinions. Sir Harold strongly objected to the suggestion for the following reasons:—

(i) war office requirements are urgent. They have been pressing for action and expect Canadian cooperation resulting in the earliest possible deliveries.

(ii) Realizing the consequent delays a situation would develop in which their plant would be idle, or nearly so, before a Canadian plant entered production.

(iii) No useful purpose is apparent in a cost-plus tender as in any case the element of a total cost would be the controlling factor in awarding the contract.

Mr. Gordon stated it has always been war office practice in considering specialized equipment of this nature, to select a reputable firm and evolve a fair contract. He expressed himself as almost being certain that due to delays consequent upon the suggested proposal the war office would withdraw from participation in the scheme.

On the 4th of February, 1938, the war office cabled the Department of National Defence "as regards alternative tenders several months would necessarily be required for another firm to study job before making reasonable tender. This delay would be fatal to British interest in the scheme." It was quite clear at that time that unless the transaction were immediately consummated there was every indication the transaction would be off, and this is fully corroborated by the cables from the war office, Exhibit No. 217, dated February 4, 1938; Exhibit No. 225, dated February 5, 1938, and cable of February 5, 1938, relating to alternative tenders—"this delay would be fatal to British interests in scheme." I would like to point out that at this time I did not think it would have been possible for any company to have submitted a firm bid that could have made any sense, as the guns were not yet in production and even Enfield themselves had only estimates of cost available. I was requested at that time to get down to business, and to work out the details of a contract that would be acceptable to the war office. The war office indicated to Canada in a cable dated February 9, 1938, Exhibit No. 218, that the "draft of Bren gun contract with John Inglis Company now agreed in detail by war office."

I might point out that this was after the war office had, to my knowledge, completed their own investigations of the John Inglis Company and the draft contract had been completely reviewed by their contract department.

I returned to Canada, appeared before the sub-committee of the inter-departmental committee, at which time I furnished the information that was requested by them and finally appeared before the interdepartmental committee at their last meeting. I would like to point out that prior to signing the contract, the deputy minister and the interdepartmental committee had the fullest knowledge of all the facts they required relating to our company. I would refer you to Mr. Elliott's evidence on page 624, which indicates a complete knowledge of the early history of our company. There is further evidence on page 625, where General LaFleche stated he knew of the receivership, that England knew

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it was substantially Major Hahn's company, and were ready to proceed in the light of their knowledge. I would refer you to the evidence on page 764 which shows that the committee knew that the old company was in receivership, and Mr. Elliott's further evidence on page 741, that they knew I had attended every meeting, ready to be called before the committee. I would refer you to General LaFleche's evidence, page 1071, where he indicated that he knew I was acquiring, or had acquired, the plant of the old John Inglis Company; on page 272, where he knew the plant was closed; pages 1074, 1076, 1077 and 1078, where he knew the production history of the old company. I would refer you to page 1896 of General LaFleche's evidence, as well as page 1827, where he knew the plant was not open and was familiar with its facilities, as well as page 1843, where it was thoroughly understood that the company was in the process of being organized at the time that I saw him. I would like to also draw your attention to pages 1724 and 1861, which give some indication of the opinion of the war office, of the manner in which these negotiations were conducted by myself.

We stated that we could organize the efficient production of the Bren gun and that we could carry out our program on time. Every undertaking that we have made we are fulfilling to the letter, in spite of the difficulties that we have encountered due to the amount of our time that has been necessarily involved in the public investigations that have taken place.

It has been pointed out that the British contract was not signed until July 20, 1938. I would like to refer you to the cable from the John Inglis Company Limited, to the war office, dated April 2, 1938, as follows:—

Amended executed agreements forwarded to-day Stop proceeding forthwith.

and the reply of the war office thereto, dated May 7, 1938, as follows:—

Letter dealing with certain points in proposed agreement sent you to-day Stop as soon as these are clear agreement will be executed.

as a result of which it was considered by us that as far as the war office was concerned, we were both contractually obligated.

Upon my return from England before the Canadian contract was signed, I felt that any further detailed negotiations to clear up the British contract could be carried out by correspondence, and that it was not necessary for me to make any further trip to England in the near future. As a result, I now felt free to open up this large undertaking in which we had already invested \$160,000 of our money, and go after the commercial business which I have indicated before, represents the long-range future of this business. Commercial business was taken in February or March of 1938, for delivery in April, 1938, and our fiscal year placed as March 31.

You have seen with your own eyes the layout of our plant in order to carry out our policy in connection with our commercial operations. You have seen an undertaking that at present is employing nearly 250 men, and will ultimately employ 1,200 men. As soon as the contract was signed, Messrs. Ainsworth, McLachlan and Gazey were sent to Enfield, and while there laid out with the Enfield officials the Bren gun building that you saw on your visit to our plant. Its shape and layout were determined at Enfield and the two requirements of thermostatically controlled heat and the maximum amount of light, were part of the building plan. For your information our company has spent very nearly \$80,000 to provide the Bren gun building. Had it been our intention simply to exploit this munitions contract, you have seen for yourselves that we would have had ample floor-space to utilize for the construction of the Bren gun. The purpose and plan of operation, namely to rehabilitate a large commercial operation and carry out co-jointly with it as part of that scheme the manufacture of munitions, must be obvious by this time to any fair-minded person who has been through our plant.

In view of the misleading and unfair publicity to which this company has been exposed, in fairness to this company and its employees, I would ask this committee to make a strong finding as to the purpose of our enterprise as gathered from your own observations.

Again, in fairness to this company and its employees, who are efficiently carrying out a difficult task, I would ask you to make a finding as to your impressions as to the efficiency of the organization whose activities you have just witnessed, and whose testimony will be placed on record should you so desire.

One of the matters discussed has been the matter of the pre-contractual engineering cost in paragraph 3-e-1 of the contract, which was limited to \$20,000. I would like to point out that this item was considered by members of the interdepartmental committee (Mr. Elliott's evidence, page 707). The evidence also shows it was a British practice to allow such pre-contractual expenses and that Mr. Elliott had come across such allowances before. Regulations issued by the United States war office are clearly shown to provide for such allowances (page 708), and Mr. Elliott also stated that in his opinion it was a reasonable allowance (page 708). The terms of the contract provide that before any payments are made against this item, the proper vouchers showing the expenses must be produced (page 709). This matter was also discussed as shown in the minutes of the meeting of the sub-committee (Exhibit 50).

I would like to point out that this item is made up entirely of expenses incurred and time spent in connection with the negotiations and engineering services for an entirely new Canadian undertaking, covering a period of eighteen months, which resulted in a concrete saving to the Canadian government of approximately \$600,000 on capital expenditure alone for plant and equipment. This is without the additional saving of approximately \$700,000 that will accrue to the Canadian government from the lower cost of production by virtue of the two contracts. In other words, it is an incontrovertible fact that by these negotiations our company has already created a saving to the Canadian government of nearly \$600,000 in capital expenditure alone—over two and one-half times any possible maximum earning that might accrue to our company—and has made possible a total saving to the Canadian government of over five times the total possible profit that could accrue to the John Inglis Company from the Canadian contract.

I would like to point out that this claim was not made until this saving was an actuality and it would seem that considered on any basis of fairness and economy, that to simply recompense the contractor to the amount of his expenses, all based on proper vouchers up to \$20,000, after he had already provided these savings to the Canadian government, would seem to be elementary good business and in every way in the interest of the Canadian people.

I would like to point out that it is obvious that had it been possible to make a firm bid that such preliminary expenses would have been included in such a bid, as they are an actual cost to the contractor considered from any angle you like, and in no sense a profit.

I would also like to point out that the possible profit that can accrue to the contractor from future production will have to be earned by the contractor during the production period and a substantial reduction in this profit can quite likely occur if rejections are above normal.

Another point that has been dealt with has been the question of profits accruing by virtue of stock transactions in connection with the company's set-up. The capitalization of the John Inglis Company Limited is 250,000 shares having a par value of \$6 per share. Under the terms of the Canadian contract, \$267,000 is the maximum profit that the John Inglis Company can earn, less the federal income tax, which amounts to \$40,050 and the Ontario provincial income tax, leaving a net possible profit, if earned, amounting to

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\$224,280. This is spread over five and one-quarter years (the period of the contract) and would amount to 17¢ per share per year, or taking the two contracts together (less federal income tax and provincial income tax) the total maximum net profit, if earned, would amount to \$378,000 which, spread over the same period would equal 28½¢ per share per year.

How, on the strength of these earnings, under these contracts, can there be the possibility of the stock speculation that has been so recklessly suggested? Any possibility of a major appreciation in the market value of the stock of the company must obviously be in the inherent value of the commercial side of our business.

It has also been suggested that I took out a lot of watered stock on the strength of these contracts. This statement is absolutely false and without foundation. The facts are that the old John Inglis Company had been a very prosperous business for a number of years. The analysis of the company's business, which you are familiar with, showed sales approximating \$27,000,000 in a period of twenty-three years, with a very substantial trading profit. You are familiar with the fact that the company, in common with other companies during the depression, suffered losses and in the midst of the depression the company lost its manager—the late Mr. William Inglis. You are also familiar with the fact that for a number of years before the depression, the working capital had been substantially depleted by the shareholders withdrawing large sums of money from the company. When I became interested in the purchase of the company, I found it had extremely valuable physical assets but no working capital or manager. You are familiar with the company's appraisals, which in 1929 showed a replacement value of \$1,777,000, exclusive of land, patterns and drawings. The land was carried on the books of the former company at \$80,000 and the patterns and drawings at \$94,000 after depreciation.

You, gentlemen, have seen the plant and these assets. I have told you that the insurance which was carried by the predecessor company and by the trustee, and which is now carried by ourselves on the buildings and machinery alone, is \$1,250,000. It must be obvious to those of you who have seen this plant, that when we got the opportunity of purchasing these assets for \$250,000, we paid a price that represented but a fraction of its actual replacement value as a going concern.

If by placing new money into this company, which we have done, and taking over the active management, and if by restoring this business to its former condition as a going concern—which we have done—I and those associated with me in the original purchase are obviously the only ones who are entitled to the profit that would accrue by the restoration of the physical assets to their proper value, and we were entitled to capitalize that profit by taking our vendor stock—which is what we have done—and we feel that not the slightest criticism can be levelled at us for so doing.

It has been suggested that because some of the stock that was bought and paid for by the original shareholders was resold by them at \$6 to \$7 per share, and that this has placed upon all vendor stock a fictitious value. There is absolutely no foundation for such a reckless suggestion. I, myself, have bought and paid for 34,913 shares at \$6 per share. I have not sold any of my treasury or vendor shares, nor have I offered any for sale, and the shares have a par value of \$6 on the basis of the plant, as a going concern, and certainly not upon any basis of government contracts which will only show an earning of 28½¢ per share per annum for a period of 5½ years.

The company is, in fact, a going concern. It is actively engaged in its commercial activity which you have seen and which is rapidly growing from day to day. The value of the shares are determined by the value of the plant, plus the working capital, and plus the profits that will accrue from the commercial and ordnance operations.

I would like to point out that in the face of the innuendoes and statements to which we have been exposed, we have taken an attitude of minding our own business and have carried on our commercial activities, making every effort to be absolutely on schedule in the execution of this contract.

I ask this committee to find what we sincerely believe we have accomplished. We believe that the John Inglis Company Limited has performed a distinct service for Canada and Canadian employment, and is at the present time conscientiously and efficiently performing its undertaking.

By Mr. Green:

Q. Major Hahn, near the beginning of your statement you mentioned that your attention was drawn to the Inglis plant by the firm of Plaxton and Plaxton, acting as solicitors for Cameron, Pointon and Merritt, who apparently are brokers in the city of Toronto. Is that correct?—A. Not just the way you put it, Mr. Green. What actually happened was, I was living on the island that summer and Mr. Bert Plaxton was living on the island a few houses away from where we were spending the summer, and we crossed on the boat quite frequently together to the city. On one of the trips across he told me that he was acting for Cameron, Pointon and Merritt, and that they had become interested in the property of the old John Inglis Company. I knew of the firm of Cameron, Pointon and Merritt, and I knew Mr. Pointon quite well, and I also knew of the firm. But it was not in the capacity of the firm of Plaxton & Company; he mentioned it to me quite casually going across one day on the boat.

Q. Cameron, Pointon & Merritt are brokers?—A. They are brokers, yes.

Q. They had already become interested in the Inglis plant?—A. I understood later that they had since, I imagine, May of that year, as soon as the company went into receivership, been in touch with the plant and had become interested in it.

Q. Why should they as brokers become interested in a manufacturing plant?—A. I believe they knew the plant. How, I do not know. They were quite familiar with the plant and they understood that there had been an option obtained on the assets at an exceedingly low figure which represented the possible purchase of those assets at a figure that simply represented a fraction of what the plant was worth.

Q. Who had that option?—A. Mr. Francescini of the Dufferin Construction Company.

Q. What was his connection with the brokerage firm?—A. He had no connection with the brokerage firm. They understood, I believe, that there was an option that existed and would expire, and that option was held I believe by Mr. Francescini.

Q. Then I suppose this brokerage firm was interested in the Inglis plant on a stock selling basis.—A. Not just in the same manner that Mr. Cameron said on the stand. They were interested in any financing that would take place. They were looking for business. They were in the financial business and they were looking for any business that would accrue in the financial set-up of that company.

Q. They were looking for any business in the way of shares?—A. And also from the standpoint of investment.

Q. Mr. Cameron I think admitted that quite frankly before Mr. Justice Davis?—A. Yes, he made that statement. As I say, their interest was more than just what that statement would indicate, and I do not think advantage should be taken of that statement. They helped to finance the company and put up part of the money and were also interested in any further financing that might be done.

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Q. They acquired an option when this first option you mentioned to Mr. Franceschini had expired?—A. No, it was not an option; we made an offer to purchase.

Q. When was the offer to purchase made?—A. I became interested, I think, sometime in August, when I said that I would go ahead.

Q. August, 1936?—A. August, 1936, and after that the legal details were carried out. I think they were made a month or so later.

Q. On what date was this offer made?—A. I do not know the date.

Q. Could you check that up on the exhibits and let us know?

Mr. MCPHEE: You cannot do it now. Do it later.

The WITNESS: I have not that before me now.

Mr. SLAGHT: Let someone else look it up.

By Mr. Green:

Q. The offer to purchase was made by whom?—A. Was made by Nurse.

Q. Nurse is an employee in the office of Cameron, Pointon & Merritt?—A. That is right, yes.

Q. And Nurse was the only man under any legal obligation to the owners of the Inglis plant until after the Bren gun contract was signed?—A. On that phase of it, Mr. Green, the legal details, you would have to ask Mr. Plaxton. After I said I would go ahead, the legal phases of it were put entirely in his hands.

Q. But you are a lawyer yourself?—A. No, that is the point, I am not a lawyer.

Q. You were at one time?—A. Well, but I just went through law school, as you know, and I never practised.

Q. You know, I think, that that is a fact, that there was no binding obligation on anyone to purchase the Inglis plant other than this man Nurse until after the Bren gun contract was signed?—A. No, no, that was not my understanding. Again, I would prefer you to—I mean, I am not competent to go into the legal technicalities.

Q. Were you personally under any obligation?—A. Yes, I understood we made—we bought the plant.

Q. Where is the document that binds you? Tell us what document it is that binds you personally?—A. Well, there was an offer to purchase made in the fall of 1936.

Q. By Nurse?—A. By Nurse.

Q. To which you were not a party at all?—A. I was not a party to that document, no.

Q. You signed no documents at all?—A. Not at that time, no.

Q. Did you sign any documents?—A. I think we signed the first document in October, 1936. The only documents I signed at that time were among the group, the original group.

Q. The document having to do with the incorporation of your new company?—A. That is right.

Mr. FACTOR: May I point out, Mr. Chairman, that on page 30 of the Davis commission report there is this comment:—

Nurse was admittedly acting, not in his own interest, but as a nominee of Major Hahn, Herbert Plaxton and Cameron, Pointon & Merritt.

That is the finding of Judge Davis.

By Mr. Green:

Q. He was acting for you?—A. Again I would much prefer—it would save the time of the committee—all I know was that in August I agreed to go into the details and put up so much money to buy the plant and I asked Plaxton & Company to carry out the details of the legalities of it. It would save your time, I think, if they were examined on that detail.

Q. Of course, we may not have any time to examine them on that point, probably will not have time.

Mr. BERCOVITCH: If the witness does not know and is not familiar with it, you cannot expect him to answer.

By Mr. Green:

Q. The point I wish to make is simply this: That the offer was made by Nurse who was merely an employee in this brokerage firm, apparently, which was acting for yourself and the Plaxtons and Cameron, Pointon and Merritt; but as I understand it there was absolutely nothing binding on you or any of these other gentlemen until after the Bren gun contract was signed?—A. Oh, no, that is not my understanding at all. My understanding was that we made a deal. We bought the property, they were paying for it and we were very much obligated to buy that plant.

Q. Can you point out to me any document you signed which was binding?

Mr. SLAGHT: He put up \$160,000.

The WITNESS: All I can say is that statement, on the face of it, is not correct, Mr. Green, because we were making payments all the time. The payments were based—perhaps this will clear the air a bit—I had knowledge that the previous option, I am not sure whether it was an option or a purchase agreement with the right to withdraw, whatever it was that Francescini had, was based on a long period to pay for the plant. I think it was two years, something the same as the one that we got. And in July I told the group that I was ready to go ahead, I was ready to provide the money, the business interested me, and I was interested in acquiring it on the terms that it seemed apparent we could get it at. Then they went ahead, and we made our payments long before the contract was signed, and when the contract was signed we had \$160,000 invested. So the statement that we had not any in it before the contract was signed is not correct.

By Mr. Green:

Q. I was not dealing with the question of how much was paid but with the question of whether or not there was any binding obligation on anyone but Nurse.—A. I shall be glad to answer any questions the committee ask me which I can answer intelligently or that I know what I am talking about; I am not capable of talking about the legal intricacies, as far as the legalities are concerned, and I would much prefer, as I say, that you would call people who know what they are talking about. I am not a lawyer and I do not profess to be.

Q. You cannot, then, point to any document in the exhibits or outside the exhibits which binds either yourself or any of the Plaxtons or any of the brokers to go through with this deal?—A. Yes, we had a firm commitment for \$350,000 in November, 1937.

Q. Where is there any contract or any other obligation which binds you?—A. Again I would ask you to examine the lawyers on that. I can discuss with you intelligently the operation of our business, the negotiation of the contract and any phase connected with those things I mentioned. The legalities and the interpretation of what the contract means and what our documents mean, I would much prefer you to examine the people who know.

[Major J. E. Hahn.]

By Mr. Bercovitch:

Q. Perhaps you could tell us this, Major Hahn: Could you tell us when the first payment was made on account of the purchase price?—A. We made the first payment, I think, in October, 1936.

By Mr. Green:

Q. That payment was made, of course, on behalf of or in the name of Nurse?—A. We put the money up. I do not know what it was made on behalf of. We put it up and we continued to put it up.

Q. Will you look at the contract for the purchase of this Inglis plant?

Mr. MACNEIL: What is the exhibit number?

The CHAIRMAN: What are you referring to, Mr. Green?

Mr. GREEN: The contract for purchase between Nurse and the owners.

Mr. SLAGHT: What is the number?

Mr. HOMUTH: 135 and 136, I think.

By Mr. Green:

Q. Major Hahn, the purchase price was \$250,000, was it not?—A. That is correct, yes.

Mr. FACTOR: Mr. Green, will you allow me to follow up one suggestion as to the obligation of Major Hahn to the company?

Mr. GREEN: Yes.

By Mr. Factor:

Q. Major Hahn, will you look at exhibit 293? That is an abstract from the minutes. Have you got that?—A. Yes, I have.

Q. It reads as follows:

“Resolved that by-law No. V enacted by directors authorizing the purchase from Stanley Nurse of all his rights, title and interest in the freehold and leasehold lands and premises on the John Inglis Company, Limited referred to in agreement of purchase dated 21st September, 1936, made between Nurse and Toronto General Trust Corporation and Premier Trust Company and as referred to in agreement of sale between S. Nurse, as vendor, and this company, as purchaser, be and the same is hereby ratified and confirmed.

Resolved that draft agreement of sale dated 1st June, 1937, between S. Nurse, as vendor, and this company, as purchaser, be approved, ratified and confirmed.”

That is an obligation of the company.

Mr. HOMUTH: What is the date of that?

Mr. FACTOR: June 1st, 1937.

Mr. GREEN: I was dealing with the personal obligation as distinguished from that.

Mr. BERCOVITCH: If Nurse was a prête nom or agent of this company that was supposed to be born, would that not hold Major Hahn?

Mr. GREEN: Major Hahn personally.

Mr. BERCOVITCH: Hold the company.

Mr. FACTOR: So far personal liability is concerned, would you look at exhibit 306? On page 4 there is this document:—

I, James E. Hahn, in consideration of the sum of One Dollar now paid by the Toronto General Trust Corporation to me (the receipt whereof is hereby by me acknowledged) and in consideration of the

extension granted as above to John Inglis Co., Limited, in which company I have a substantial interest, and which extension was granted at my personal request, do hereby for and on behalf of myself, my heirs, executors, administrators and assigns, upon and subject to the conditions expressed in the foregoing letter of extension, guarantee payment by John Inglis Co., Limited on the closing of the sale or on default, whichever event shall first happen, of all interest and the cost of maintenance payable under the provisions of paragraphs (a) and (b) of the foregoing letter of extension.

The letter of extension is exhibit 306, and is dated 7th January, 1938.

Mr. GREEN: That does not cover the principal payment.

Mr. FACTOR: Yes, the letter of extension covers everything.

Mr. GREEN: This agreement you mention only covers interest and the cost of maintenance.

Mr. FACTOR: Yes. But if you look at the letter dated 7th January, 1938—I do not want to take up the time of the committee unnecessarily—you will see that it clearly obligates the payment of \$7,500, \$7,500, \$10,000 and \$53,500 in money and \$150,000 in bonds.

Mr. GREEN: That is a matter of supposition. I do not think that is covered.

By Mr. Green:

Q. Then with regard to the payments, Major Hahn, you said that the total purchase price was \$250,000?—A. Yes.

Q. Covering land, buildings, equipment and everything?—A. Covering everything, yes.

Q. \$100,000 of that was payable in money over a period of time; and \$150,000 was payable by the company, Nurse or whoever took over Nurse's rights, giving a mortgage, was it not?—A. That is right.

Q. As I understand it, at the time the Bren gun contract was signed there had only been something over \$40,000 paid under the agreement out of the total \$100,000?—A. Well, \$40,000 paid under that agreement; but we had paid \$160,000 altogether under our agreement to provide cash and under our agreement to buy the buildings.

By Mr. Bercovitch:

Q. In addition to that you had the obligation to pay the balance of \$150,000?—A. Yes. You can state it any way you like, Mr. Green, but there is no use of getting away from the facts. We had paid \$160,000 when the contract was signed, and there is no other way of putting it.

By Mr. Green:

Q. I want to find out, first of all, what you had paid to the people from whom the plant was purchased at that time?—A. Yes. Well, we paid—I think your figure probably is correct.

Q. \$43,000 or \$44,000?—A. Yes; and the balance—we simply did not pay that because the balance was not yet due.

Q. And as to the indebtedness, the mortgage on which there were bonds issued—the total being \$150,000—was executed after the Bren gun contract was signed?—A. Well, it was executed afterwards, yes. But it was simply—we were not watching this thing with a stop watch. We were organizing a business, putting up our money, and not organizing it on a basis where every action we took could be construed into something that it did not mean. I mean,

[Major J. E. Hahn.]

the thing to figure out is that if any contract was signed—we are not gambling \$160,000 in the hopes of getting that contract. That money was in and the mortgage was signed. Even if the contract was assigned a week before or six months later, I do not see that it makes any difference.

Q. Your operations in the commercial division were started on April 1st?—A. They were started when I thought fit to start them, for the reasons I told you before, that we bought the business because it was a business that was primarily associated with the basic industries of Canada. That is what interested me in that business; and I bought it for another reason that I will not put on the record. I have two boys growing up, and I would prefer that not to go on the record. That is why I bought that business. I thought it was a sound business at that time.

Q. I am simply asking the question as to whether or not you started the commercial operations on the 1st of April, 1938?—A. We started looking for commercial business, Mr. Green, as you will find in the evidence; in the Spring of 1937, we started looking for commercial business. The time I had in between the time I came back from England in December, 1936, and the time I left for England again in March, 1937, I was out looking for commercial business. The record and evidence will show I was out looking for railway business to put into that plant or parts of railway equipment. Then as soon as I was free again—I think you will have to consider how much I was tied up then by the negotiations. When I saw this thing at first I thought we might get a few shells. That was my first idea. If we could get some munition business it would give us a back log while we were getting our commercial business. The plant had manufactured before; the machinery was there; the men were there.

Q. Your actual operation of the commercial division commenced in the month of April, 1938, which was after the Bren gun contract was signed?—A. We started getting orders before that. We got orders in February or March, 1938. We first took orders for delivery, because we had to take orders and give delivery dates.

Q. From what period did your books open in the commercial division?—A. We opened up our books the 31st of March, 1938.

Q. Then you sent out quite a lot of circulars to prospective buyers right across Canada?—A. That is correct.

Q. I have one here which was sent to Vancouver.—A. Yes.

Q. It states: "Since April, 1938, we have manufactured machinery for marine, stationary and power plant work," etc., so that on your publicity you at least stated that your commercial division went into operation in April, 1938?

—A. Yes. We did not attempt to take any business at all until shortly after we opened the plant.

Q. And the main branch of your business then is the commercial division?—A. That is the long range future of the business. As it happened, the order that we got for the Bren gun was substantially larger than anything we can develop the commercial business into within the next year or two. Our budget—when I first went into the business, as I told you before, we laid out a budget which was based on reaching the average commercial business of the company in five years' time, and that called for \$150,000 commercial business in the first year of operation; so, naturally, when I saw an order that amounted approximately to \$4,000,000 it certainly is a sound thing for me to pursue that order, even through we lost the entire year or one and a half years' business; and that is what I did. Then we opened up our business and in the first year we got very close to our \$150,000 that was budgeted for.

Q. So you place at least equal importance on the commercial division?—A. I will put it another way. I think the commercial business is the future of the company, not munitions. That is just common sense again. How in the

world can we plan on business in munitions? Here is a business that has existed since 1860, a commercial business; and munitions business is here to-day and away tomorrow. The munitions business we undertook was—it is very excellent business and even at this time we are very glad to have it, although if I had known what it would involve I doubt very much whether I would have undertaken it.

Q. What area in your plant is used for the two different branches, the commercial branch and the Bren gun branch?—A. For the commercial?

Q. How is the area of your plant divided up between the two divisions?—A. Do you want it exactly or just approximately?

Q. Oh, approximately will do.—A. I would say we have 200,000 square feet of total space.

Q. How much?—A. 200,000 square feet of total floor space. I would say that approximately somewhere between 60,000 and 70,000 square feet will be taken for the Bren gun production.

Q. How does the actual business of the Inglis firm at the present time divide as between the Bren gun division and commercial?—A. At the present time?

Q. Yes.—A. Well, for the first year, the commercial division—and this is approximate—was approximately one-quarter of the ordnance.

By Mr. Bercovitch:

Q. What was that?—A. Our commercial business was one-quarter of the ordnance business in our first fiscal year.

By Mr. Brooks:

Q. In that do you include jigs, dies, and that sort of thing to manufacture the Bren gun, in your commercial division?—A. No. That is purely commercial business—nothing to do with that and in no way related. For example, that does not even include rehabilitation of the Ross rifle equipment.

By Mr. Green:

Q. It does not include repairing the Ross rifle machinery?—A. No. That is purely commercial business and has nothing whatever to do with the Bren gun.

Q. Actually, the work on the Ross rifle equipment is work of your commercial division, is it not, and should be included in that?—A. No, because we did not take it on the same basis as commercial work. We took it on a straight cost plus basis, simply material, labour and a proportion of the overhead.

Q. What proportion of the Bren gun business is work that is actually being done in your commercial plant?—A. There will be very little. The Ross rifle equipment is substantially the end of that work. What we are trying to do is just to prevent what you are leading up to.

Q. How do you know what I am leading up to?—A. Well, we are trying, as fast as we can, to segregate every phase of our operations between the commercial and the ordnance, so that on the accounting end of it we can say just how much, for example, heat is used. We are putting flow meters in so that we can determine by flow meters exactly how much steam has been used in the commercial and how much has been used in the ordnance. By the end of this month the whole thing will be metered electrically so that the electrical division of power consumption is gauged and there is no guesswork about it. We are doing that in every department as quickly as we can do it; that is the reason why and one of the advantages of segregating the entire ordnance operation.

Q. How much money has been invested in the Bren gun division by the company?—A. By us?

Q. Yes.—A. Very close to \$80,000.

[Major J. E. Hahn.]

Q. Very close to \$80,000?—A. Yes.

Q. All the rest of the money you say that has been invested in the company has gone into the commercial division?—A. Well, I am talking of the building.

By Mr. Brooks:

Q. That is the new building?—A. Your question is not clear. Do you mean the working capital or the money spent on the building or what?

By Mr. Green:

Q. On the building.—A. We have spent \$80,000 or close to \$80,000 on the new building.

Q. That is the total extent of your investment in the Bren gun division?—A. That is for capital expenditure; that is for the building.

Q. How much of that is chargeable to the government under the contract?—A. We have made no claim for that. That is a company expense.

Q. Are you entitled to any claim for any portion of that against the government?—A. No. We do not think so.

By Mr. MacNeil:

Q. Major Hahn, the record shows the formation or incorporation of a number of companies; first of all, there was the Anglo-Engineering Company; then there was the British-Canadian Engineering Company and then the Industrial Reserves, I believe it is called.—A. Yes.

Q. And subsequently the new John Inglis Company?—A. Yes.

Q. May I ask the reason for forming a number of companies of that nature in order to take over the assets of the old John Inglis Company?—A. Again that is a question I would prefer lawyers to answer. We first had in mind a holding company—a manufacturing and holding company; but I was not sold on that idea and that is why it was washed up. It did not come to anything, particularly as it involved—I think the original scheme involved a large bond issue. I did not think that a heavy industry such as we were opening should have a very heavy fixed burden by the issue of a large amount of bonds. To make a long story short, that was simplified to what we have at the present time. With regard to Investment Reserves, I think that was at the suggestion of Mr. Cameron, for some reason. They preferred a holding company for the holding of stock. Again in the evidence you will see I objected to that and wanted my own stock out of the holding company. So that Investment Reserves really did not serve any useful purpose at all.

Q. Would you explain in simple form the present distribution of the stock issue of John Inglis Company proper and how it is held?—A. The present distribution? I have my own stock, my own commitment stock. We committed for 58,333 shares, I think it is, at \$6 per share—that is, the group—of which I committed for about 60 per cent. We had bought, as I say, and paid for over \$330,000, I think. In other words, we had taken all that up with the exception of about 3,000 shares. My own stock is held in my own name, the stock I have taken up.

Q. How much?—A. Roughly, 34,000 odd shares. Then with regard to the vendor's stock, that is in escrow with the Bank of Montreal, in accordance with the requirements of the Ontario Securities Commission; and I have requested and they have acceded to my request that it be transferred to my own name.

Q. Does that account for all the stock?—A. I am talking of my own stock.

Q. Yes?—A. As to the other stock, I cannot answer for that; I do not know. Cameron, Pointon and Merritt or Plaxtons have their commitment stock; I presume that is in their own name. I would think so; I do not know. You had better ask them because I really do not know. I know my commitment stock is in my own name, and my vendor's stock I have made application to have transferred to my own name.

Q. Apart from the stock you have referred to in your own name, the other stock could be offered for sale to the investing public, as far as you know under existing arrangements?—A. To the investing public? I imagine the same as any other stock that is held, the same as any other stock of any shareholder.

By Mr. Bercovitch:

Q. I think under the contract you have to have the consent of the Department of National Defence or of the government, rather, before you can sell your stock.—A. Not our own personal stock.

Q. Not your own personal stock, but the company's stock.—A. Well, the company has no stock to sell. We committed for all the company's stock.

Q. Well, of course, whether your own personal stock can be sold or not is a debatable point which Mr. Elliott discussed here at some length.

Mr. GREEN: Mr. Hahn is of the opinion that he can sell.

Mr. BERCÓVITCH: Whether his opinion is that or not, the point is whether it is legal or not under the contract, which is a matter of interpretation.

The WITNESS: Our opinion is that the question of personal stock was never raised at all at any time. The question of that stock restriction was raised on the basis of capitalizing the contract or setting up—that is all in the evidence before the commissioner—the question of possibly splitting the stock or taking the contract, and in addition to the 250,000 shares we have, adding more stock; in some way capitalizing the contract and issuing stock on the basis of that. It could not possibly control the stock we committed for and bought and paid for long before we ever heard of the contract.

By Mr. Bercovitch:

Q. That is your understanding, but you have not had any legal opinion on that?—A. Yes; we have had plenty of legal opinion.

By Mr. Brooks:

Q. Have you sold any of this stock since this contract was signed?—A. I have not sold any of my stock. I understand Mr. Cameron sold some of his.

Q. Do you know at what price he sold?—A. He sold, I think, between \$6.50 or \$7 a share that was authorized by the Ontario Securities Commission, I understand.

By Mr. MacNeil:

Q. May I ask what previous experience you have had, personally, in the manufacture and fabrication of precision steel commodities?—A. Well, I was born and brought up in the manufacture of brass and steel. My father was the founder of the Hahn Brass Company, which is still in existence, and also the Stratford Brass Company, of which I happen to be a substantial stockholder. My father founded both of them. Those companies make brass and steel, as a matter of fact, they have their own foundries and do all their own tooling, all their own pattern work and manufacture and fabricate steel; they are not all steel; they manufacture and fabricate brass, iron and steel. Then when I went into the radio business, that in itself is a considerable tooling job every year; it is, in fact, a very large tooling job and involves the manufacture of steel insofar as the chasses are concerned. But particularly when we went into the manufacture of refrigeration. We made a tie-up there with Borg-Warner who are probably one of the largest precision steel manufacturers on the continent; and the Norge refrigerator is a subsidiary of Borg-Warner. In the manufacture of the rolator refrigerator we have precision steel. The tolerances there are as fine as for machine guns but not for as many parts. You work there to one-ten-thousandth of an inch. Between being born and brought up

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in a plant, spending practically all my life there until I went overseas, and the experience I had in manufacturing—I made it my business; I have been through most of the industrial plants on this continent that do manufacture steel and I have got men who have had experience in the laying out of tooling and manufacturing programs. The Bren gun problem is one essentially of intensive planning and organizing before we get into production. The tooling is far more important than production. If we get our tooling right, production is no problem at all; and we had a very wide experience in tooling.

By Mr. Green:

Q. You do not profess to be an engineer yourself; you rely on engineers whom you employ to do the engineering work?—A. That is correct. I have a working knowledge from constantly being associated with engineers and being in industry ever since I got back from overseas.

Q. You have common sense, not technical skill?—A. That is correct. I know when I talk to an engineer what he is talking about.

By Mr. Brooks:

Q. You do not anticipate many rejections in the manufacturing, do you?—A. I anticipate this: We are starting a new industry in Canada. It would be foolish for us to consider that we could start up a new plant, staff it with help, where we have to expand to nearly one thousand workmen for that particular job, and operate to start with as economically from the rejection standpoint as a firm that has been in it for many years, such as Enfield. I think we will make a very creditable showing, considering that we are starting this industry absolutely from scratch; and I expect our rejections will be—I think we will make a showing that we can be very proud of, both from the standpoint of getting the guns out on time and also from the standpoint of cost.

Mr. BERCOVITCH: I want to call to your attention the evidence of Mr. Fraser Elliott on this question of the sale of stock, at page 201 of the evidence taken before this committee. It reads as follows:—

By Mr. MacNeil:

Q. Before you pass from the stock selling prohibition, may I ask if you are prepared to answer questions or would you rather return to it later?—A. No. I think we should exhaust it, if it is agreeable to you. Let us go back.

Q. I was reading your evidence on that point at the close of the last day's sitting. Is it fair to state that you feel now that this clause does not absolutely prohibit stock jobbing by hidden holding companies?—A. No. I think that would be going too far, to make it so concrete. Let me state as concisely as I can in summary form what I think my evidence conveyed. The prohibitory provision contained in the second paragraph of section 1 falls into two parts, very important parts. I am very clear that if the company increases its stock or sells its own stock, in any manner whatsoever, the company, meaning the John Inglis Company—if it increases its capital in any way and sells stock without the permission of the Minister of Defence—I think that is the name; without the consent of the party of the first part—then I think there is clearly a breach of the contract. The second part of that clause relates to those who already are in possession of stock of the company, having been in possession of it before this contract was entered into. The intention was, so far as it was possible, to bind third parties that were not signatories to this contract, to insert in that clause a condition that the contractor, the John Inglis Company, would bind itself that if third parties holding its stock did sell that stock, then upon that event,

there also would be breach of this contract. I put it to Mr. Green, who was here at the time, as a legal proposition: Can two parties contract one with the other, so that if the third party who is not a signatory to the contract immediately under consideration, does something or refrains from doing something, then upon the happening of such event, the relation between the two contracting parties changes? That, I believe, is a perfectly good kind of contract between two parties, depending upon the action of a third party. So I conclude my second phase of analysis of that clause by stating that it was intended to go as far as contractual relations would permit. But whether the wording in itself is ample to do it is, I think, open to doubt and that, I think, you have caught from my evidence the last time when you asked me if I were doubtful as to the efficacy of this clause. On the first phase, no; on the second phase, I would say it is doubtful, but if the contractor has a good contract I imagine he stands in great jeopardy by the action of third parties over whom he may have no control.

Do you see that in the evidence? Did you follow that?—A. Yes.

Mr. MACNEIL: What is your question?

By Mr. Bercovitch:

Q. My question is: Is that your understanding of the interpretation of the contract?—A. No. Our understanding—and I think a little later, Mr. Bercovitch, Mr. Elliott elaborates on that and states that the commissioner stated during the investigation that there was no possible breach of the contract by selling any of the stock that we had committed before this contract was signed—in other words, which was all the stock of the company. I think you will find that Mr. Elliott agrees with that.

By Mr. MacNeil:

Q. And, as a matter of fact, there has been a sale and that sale has not been questioned by the department?—A. That is correct.

By Mr. Isnor:

Q. A small portion, 20,000?—A. I think Mr. Cameron sold something between 3,000 and 4,000.

Mr. BROOKS: The principle is the same, no matter what quantity is sold.

By Mr. Brown:

Q. I did not quite understand the answer you gave to Mr. MacNeil. You stated that you were vastly interested in the trade mark and name and the commercial business of the Inglis company?—A. That is correct.

Q. You further stated that you had investigated the business of the company in previous years?—A. Yes.

Q. And had found out that it had a very good name?—A. Yes.

Q. And there was a lot of good will attached to the business?—A. Yes.

Q. Do you not think, if that were so, that this purchase would have been in the name of the Inglis company instead of those other companies?—A. Mr. Brown, no, because I was in a specialty business, as you know, at DeForest Crossleys, where a trade-mark is a very important thing, and I realized that the value of a name was a very important thing, the Inglis name, because as you have heard it was well known and favourably known and I wanted that as part of the assets. I understood that we would get that and that that was part and parcel of our deal. Then when I asked Plaxtons to get the name there were some complications and we did not get the name until sometime in the

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spring of 1937. There was some complications on account of the old company still being in existence. What it was, I am not clear on, but they ultimately got what I am told we were entitled to get. But I wanted the Inglis name right from the start.

Q. That is my thought.—A. Oh, yes, and we ultimately got it.

By Mr. MacNeil:

Q. What facilities existed in the old John Inglis plant for precision steel manufacture?—A. For precision steel?

Q. Precision work?—A. There was very little there, Mr. MacNeil, for precision work, such as the Bren gun. They made marine engines, for example; they made pumps, and they made larger equipment that works to pretty fine tolerances, but there was no small machinery there for making smaller precision parts as you are suggesting.

By Mr. Brown:

Q. That machinery would not be much good for making shells now, would it?—A. No, Mr. Brown. The art has changed. For example, any company that had machinery such as we have for certain of our equipment, we can use. Then there has been great development in shell production, as I have seen, and there has been new highly mechanized, high-speed machinery developed. I imagine anybody getting into the shell business to-day would have to get new high-speed machinery.

By Mr. MacNeil:

Q. You have seen the reports of the departmental officers that were submitted to the commission?—A. Yes.

Q. You concur in those reports of inspectors?—A. Yes.

By Mr. Green:

Q. You suggest the Inglis company had invested something less than \$80,000 in the buildings, and so on?—A. Yes.

Q. For the Bren gun work. Will it be necessary for the company to invest any further sum?—A. We do not think so. We think that part represents the total of our capital expenditure.

Mr. GOLDING: Mr. Chairman, in reference to the question of rejection of guns or parts that are spoiled because of poor workmanship, this matter was well discussed. On page 33 of the proceedings of this committee Mr. Homuth said, as follows:—

Mr. HOMUTH: You never heard of rejects of any great value in a business like that, and they are all taken into the cost.

Mr. BROWN: They were taken care of in the cost in the making of shells.

I remember well in the manufacture of shells, if there was any defect in the materials, that was taken care of, but if the defect was in the workmanship that was a complete loss to the company. That is the way we operated, and we made shells for close to four years. Now, you would not be optimistic enough to believe that in making 12,000 guns with 2,500 operations—

Mr. BERCOVITCH: For each gun.

Mr. GOLDING: And with the allowances down to one thousandth of an inch, that you could manufacture those 12,000 guns without rejects?

The WITNESS: Oh, no.

By Mr. Golding:

Q. That would be your loss?—A. No. There is a normal wastage that goes with the manufacture of guns. That is recognized at Enfield and everywhere else where machine guns are made. It is not possible to make a gun with 160 parts and 2,500 operations and not have a wastage. There is a wastage and we expect to conform and ultimately get down to what the normal is or what the standard practice is.

Q. Our experience was that we did everything possible to eliminate rejects and exercise all the care we possibly could but we still had rejects.—A. Yes.

By Mr. MacNeil:

Q. On that point, your preliminary statement referred to normal rejections?—A. Yes.

Q. Would you define that a little more clearly?—A. I would not like to define it. We are trying now to find out what the rejections are at Enfield. We have eight of our men over there now, and the rejections vary considerably from the starting of production to when you reach production. Then there is a certain percentage, whatever that percentage is, applied against the entire production.

Q. You stated in your evidence that provision would have to be made in drafting a contract to take care of that safety factor covering normal rejections?—A. Yes.

Q. The contract states that the John Inglis Company will bear the cost of rejections due to negligence or faulty workmanship; do you anticipate that a certain percentage of normal rejections will be provided for by payments from the public treasury?—A. Oh, yes, that is part and parcel of the cost of manufacturing a gun.

Q. The normal rejections?—A. The normal rejections, yes. In other words, it is reasonable to expect that we would reach a time when our rejections would be normal.

By Mr. Homuth:

Q. Of course, Major, in connection with the rejection of guns, where there are so many parts, it may be just the rejection of a small part of the gun which of course could be replaced by another part. Is that not a fact? I think perhaps the committee has been given the idea several times that there is the possibility of a gun being rejected.—A. I will explain to you how it is made. We are making the parts. Going back for a moment, the tooling is the essential part of this whole scheme. Now, if we can make the tools right we can make the guns. We require 15,000 jigs, dies, tools and gauges, about 9,000 to gauge each part as it is now. You are familiar with production and you have a gauge, each part will have to be gauged, some of them two and three times at different places as it is being made. After that part passes our inspection then each individual part is gauged by the army inspection, and if the part is not gauged, if it does not gauge correctly, it is rejected. It is only the parts that have been passed, not only by the company but by the army inspection, that finally go into the assembly room to be assembled as a finished gun. As you say, it will not be the total of guns rejected, it will be the disparity of parts, depending on the intricacy of the particular part we make.

By Mr. McCann:

Q. Will the experience of the Enfield plant be the basis of your normal rejections?—A. We expect this. When they asked me in England what I thought the gun would cost I said it would be this: We could make the gun by approximately the method used for what it could be made for in England.

[Major J. E. Hahn.]

On top of that you would have to add the differential between the labour factors in England and Canada; in other words, Canadian labour ranges 40 to 90 per cent higher than the British. On top of that you would have to add our inexperience, or the inexperience of anyone else in the production of machine guns. I think we would be foolish if we said we could start on the production of machine guns in Canada and have a small wastage as compared with an experienced plant like Enfield. We expect our wastage to be higher when we get into production.

By Mr. MacNeil:

Q. You consider that a reject under the provisions of the contract?—A. I would think so. That would be the same with any company, whether it was our company or any company.

By Mr. Golding:

Q. How many operations are there on the main part of the gun?—A. 269.

Q. Supposing the last operation is oversized.—A. Yes.

Q. It is rejected?—A. Yes.

Q. Then all those operations are gone?—A. That is right.

Q. And that is the cost of the gun?—A. That is right.

By Mr. Isnor:

Q. 269 separate inspections before you reach the final stage?—A. There are more inspections. There are 269 operations which should be gauged. Some of them will be gauged two or three places.

Q. Before final inspection?—A. Before final inspection, yes.

Q. But if the final inspection is out, then, of course, that is out completely?—A. A complete reject, yes, unless we can correct it. For example, if a thing is overcut we try to chromium-plate it and spot-plate that part and bring it back to the proper size.

By Mr. Green:

Q. There is an allowance made for a certain number of rejects of that type under the normal procedure?—A. Yes.

Q. That would come under your word "wastage"?—A. Yes, that would all be part of the cost of the gun.

By Mr. Bercovitch:

Q. Where do you find that in the contract?—A. In that clause which deals with the wastage allowed under normal engineering standards. It is on page 12, the last part of the paragraph at the top of page 12, section 11.

By Mr. Golding:

Q. Mr. Chairman, just following up that point, what is the cost of the main part of the gun Major Hahn?—A. I would have to break that down.

Q. That would be the principal cost or the big cost, the main part?—A. Well, no; it is the most expensive part, but when you figure 2,500 operations there are about $\frac{1}{16}$ of the operations of the whole gun there.

Q. The rejections which you have over the normal will be your loss?—A. That is correct, if we go over whatever is established as normal.

By Mr. Green:

Q. You are expecting that most of these defects will be covered by the ordinary wastage?—A. We expect to be efficient enough to have that covered, yes. We are going to, do not worry.

Q. In England the Bren guns are being made exclusively by the government?—A. No; this Bren gun is made by the government. The 50 calibre is made by the Birmingham Small Arms.

Q. That is a recent development, is it not?—A. No, that was sometime ago; I do not know how long ago. When you say "recent," I would imagine it has been at least a year or two since that has been going on.

Q. The Bren guns, such as you are to manufacture, are now made in England by the government?—A. That is correct.

Q. And the Birmingham Small Arms Company, to which you referred in your statement, is an armament firm, is it not?—A. Well, it is a private company that has a large commercial business and also an ordnance division.

Q. They make different kinds of fire-arms?—A. They make fire-arms, they make bicycles and they make a very wide variety of things.

Q. They have made fire-arms for many years?—A. They have made fire-arms, yes.

By Mr. MacInnis:

Q. Did your company sign any contracts for commercial business prior to March 31, 1938?—A. Yes, as I say, we took an order, our first commercial order, where we took it on a delivery basis, in February or March, 1938.

By Mr. Green:

Q. There was not much doubt then about there being a Bren gun contract?—A. We hoped not, after all the time we had spent on it.

By Mr. Bercovitch:

Q. Coming back to this question of defective materials or workmanship in the gun, as I read this clause—

Mr. GREEN: It is one o'clock

Mr. BERCOVITCH: I just want to finish this.

By Mr. Bercovitch:

Q. With regard to the clause on page 12 to which you referred the committee, I do not quite agree with your understanding of it, and I want you to correct me if I am wrong. I just want to read it into the record. The relevant part is as follows:—

And that should any of the articles or materials comprised or to be used in said Bren guns and in spare and component parts thereof be found by the party of the first part—

That is the government.

—to be defective, either in quality or workmanship, or otherwise not in conformity with the aforesaid specifications, the party of the first part—

That is the government.

—shall have the right to reject such materials and/or articles, as the case may be, or require their correction, provided always that the costs of any material or spare or component parts so rejected, including cost of labour thereon shall not be charged to the party of the first part if the defects in same which cause such rejection are the results of faulty work-

[Major J. E. Hahn.]

manship or negligence on the part of the party of the second part and are not such as normally occur in the manufacture of Bren guns or spare or component parts thereof according to accepted engineering standards.

As far as I understand that clause, if there is any rejection due to faulty workmanship or negligence, John Inglis Company will have to bear that loss.

Mr. GREEN: You are leaving out the other proviso under which they do not have to bear the loss.

Mr. BERCOVITCH: "If the defects in same which cause such rejection are the result of faulty workmanship or negligence."

Mr. GREEN: Yes, if they are not such as normally occur in the manufacture of Bren guns.

Mr. BERCOVITCH: Yes. But if there is negligence on the part of the John Inglis Company in the manufacture of the Bren gun, then they are liable for that loss.

The WITNESS: It is only if it is over the normal.

Mr. BERCOVITCH: Yes, over the normal.

Mr. MACINNIS: What is the normal?

Mr. BERCOVITCH: I am not an engineer and neither are you.

Mr. GREEN: He did not expect to have any losses.

Mr. MACINNIS: Neither is Mr. LaFleche.

Mr. GOLDING: That is not a correct statement. You say that he did not expect to have any losses.

The WITNESS: No.

Mr. GOLDING: That is not a correct statement. It was not said by him.

The WITNESS: No, I did not say that. I say we interpreted that clause that we are entitled to the normal losses that occur in the manufacture of machine guns the same as any other company.

Mr. GOLDING: Surely.

The WITNESS: We will make every effort to restrict, obviously, the rejections. If we can we will keep them under normal, if we possibly can do so.

By Mr. MacInnis:

Q. Who will determine what is normal?—A. Well, you have the Enfield record to go on, and you have the Australian record to go by.

Mr. GREEN: It is one o'clock.

By Mr. Golding:

Q. I just want to follow this up. In estimating the profit of \$267,000 you cannot say now that you will get that profit.—A. Oh, no.

Q. Because there may be losses above normal?—A. Absolutely. We will obviously try to avoid that.

The CHAIRMAN: It is after one o'clock, gentlemen. Is it the wish of the committee that we should have another meeting to-day, or that we adjourn until to-morrow morning?

Mr. GREEN: To-morrow morning at eleven o'clock.

The CHAIRMAN: All right.

The committee adjourned at 1.05 p.m., to meet again on Friday, May 5, at 11 a.m.

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Canada - Public Accounts, Standing Committee
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1939

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

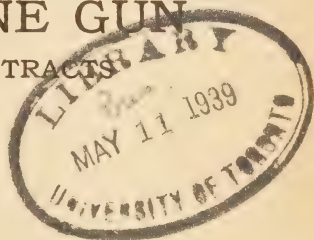
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 16



FRIDAY, MAY 5, 1939

WITNESS:

Major J. E. Hahn, President, John Inglis Co. Limited

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, May 5, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Beaubien, Bereovitch, Brooks, Brown, Douglas (*Weyburn*), Factor, Fleming, Fraser, Golding, Green, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McPhee, Marshall, Patterson, Purdy, Rickard, Stewart, Thauvette.

In attendance: Major J. E. Hahn, President, John Inglis Co. Limited, Toronto, Ontario.

Examination of Major Hahn was continued.

The Committee adjourned until Tuesday, May 9, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368.

FRIDAY, May 5, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we shall proceed.

MAJOR J. E. HAHN, President, John Inglis Co. Limited, recalled.

By Mr. MacNeil:

Q. Mr. Hahn, may I ask why you asked for an introduction to the department and to the minister from Mr. Hugh Plaxton, M.P.?—A. The plant is situated in the riding which is represented by Mr. Hugh Plaxton. I had not met any of the department and I thought he was the logical man to arrange for the introduction.

By Mr. Green:

Q. You knew the Plaxtons before that time, did you not?—A. Yes, I had met them; I did not know them very well. They were members of the yacht club, and I knew them there, but I did not know them intimately at all. I had met Mr. Hugh Plaxton before, that was all, and I had seen Mr. Bert Plaxton around the club. As I say, that summer, he lived on the island close to where we were living.

Q. You said yesterday that through the Plaxtons you had become interested in this factory?—A. Well, not quite that way, Mr. Green. I said Mr. Plaxton told me that Cameron, Pointon and Merritt were interested, and that he was acting as solicitor for them, as matter of fact, had been solicitor for Cameron, Pointon and Merritt for some years, and that the main interest and main contact, and I think the only contact at the time he spoke to me, with the firm was by Cameron, Pointon and Merritt.

By Mr. MacNeil:

Q. So he intimated it would be better for you to secure such an introduction?—A. No. I mean, I was the one that wanted the introduction.

By Mr. Green:

Q. You said you used to come over from the island with one of the Plaxtons and that it was during these trips that you discussed the Inglis plant?—A. That is Mr. Bert Plaxton, yes.

Q. And when you decided to look for munitions business you got Mr. Hugh Plaxton to write a letter of introduction to the Prime Minister; that is correct?—A. That is correct, yes.

By Mr. MacNeil:

Q. Did you ask him to accompany you to the office of the deputy minister and to the minister?—A. Yes, I think so, because I had not met the minister. I imagine I did; I do not recall.

Mr. McPHEE: Was the letter to the Prime Minister?

Mr. MACNEIL: No, the minister.

By Mr. Green:

Q. In Mr. Justice Davis' report, page 17, he says Mr. Plaxton wrote a letter to the Prime Minister.—A. I am sorry, I misunderstood that question.

Q. Exhibit 336. That may be an error but that is what the report of the commissioner says.—A. No, I did not know that Mr. Plaxton, Hugh Plaxton, had written a letter to the Prime Minister. I did not know that until I saw the reply, as a matter of fact. I had discussed with Mr. Hugh Plaxton when I became interested in the munitions end for the John Inglis Company and asked him to find out for me what the position was of a company seeking business outside of Canada, because, at the outset, as I told you before, the only possibility seemed to be in England. I knew that a shell contract was being placed by England and Canada and I was not familiar with the provisions, or whether you could or could not make munitions in a factory in Canada and export them.

Q. This letter was written by Mr. Hugh Plaxton, M.P., on August 24, 1936, apparently to the Prime Minister, and Mr. Justice Davis says it was written at the request of his brother, Mr. Herbert Plaxton, who had telephoned him from Toronto, and then the commissioner quotes the letter which reads as follows:—

Mr. MCPHEE: Wait, wait; this is not the proper witness to ask regarding that matter. He knows nothing about the letter.

Mr. MACNEIL: We are asking him if he does.

By Mr. MacNeil:

Q. The letter reads as follows:—

Mr. MCPHEE: Wait a minute.

The WITNESS: I am familiar with the letter after having seen it. I saw the letter after an answer had been received. I do not know whether I saw the letter; I saw the answer to the letter.

Mr. McGEER: I do not see any reason, Mr. Chairman, why this letter should not be read to the witness. There is absolutely nothing in the letter.

Mr. GREEN: He quoted from it yesterday.

Mr. McGEER: It was written to ascertain the policy of the government or the attitude of the government.

Mr. GREEN: I think Major Hahn quoted from the letter yesterday.

The WITNESS: No, I did not quote from that letter.

Mr. McGEER: Go ahead.

By Mr. Green:

Q. The letter reads:—

A group of friends of mine in Toronto are equipped fully to manufacture munitions. Their plant is located in my constituency. They have asked me to ascertain whether or not the government's policy permits of the obtaining of orders from the British government. I shall appreciate greatly receiving your advice in this regard.

I am returning home Wednesday of this week. . . .

Were you one of this group of friends?—A. I was one of the original group in this situation. As I say, I did not know that that letter had been written, as such. I discussed just exactly what is contained in that letter with either Mr. Bert Plaxton or Mr. Hugh Plaxton, or both; I do not remember that. That letter is simply the logical question, the first question I would ask if I were considering manufacturing munitions for export.

[Major J. E. Hahn.]

Q. What happened, I take it, was that the group discussed the situation in Toronto and then Mr. Herbert Plaxton, on behalf of the group, telephoned Mr. Hugh Plaxton, M.P., in Ottawa, and Mr. Hugh Plaxton wrote the letter to the Prime Minister?—A. Probably. I know the matter was discussed, and there is a letter. I saw the reply to that letter in the fall of 1936.

Q. You knew Mr. Hugh Plaxton was being requested?—A. That is correct, yes.

Q. The reply from the Prime Minister was dated the 12th of September, 1936. You saw that, did you?—A. I saw that, yes.

By Mr. MacNeil:

Q. When?—A. I saw that shortly after it was received; I do not know exactly.

By Mr. Green:

Q. That apparently reads as follows:—

I have delayed in acknowledging your communication of August 4 until I had opportunity to discuss its representations confidentially with my colleagues in council.

I may say, in reply, that we see no reason why a Canadian firm established for the manufacture of munitions should be precluded from obtaining orders from the British government. It would be necessary, of course, to see that it was distinctly understood that such orders as were obtained were at the instance of the firm itself and not either directly or indirectly at the instance of the government of Canada. Any company doing business will of course be subject to any regulations or control which the government may decide to exercise at any time.

That apparently was a definite stand taken by the Prime Minister. Why in the face of that stand did you come up to Ottawa and try to get a letter from the Department of National Defence?—A. Well, because I wanted to go to the war office and I would obviously try to get anything that would facilitate the purpose of my visit, and the logical place to go would be to the Department of National Defence. That letter of the Prime Minister was not a letter to me. I was advised of the contents of it, and I think I saw the letter, and I naturally would go to the Department of National Defence or I would use every assistance that I could logically think of to help me on my trip to England.

Q. Of course, here the Prime Minister has stated in his letter "It would be necessary, of course, to see that it was distinctly understood that such orders as were obtained, were at the instance of the firm itself and not either directly or indirectly at the instance of the government of Canada." Of course, if you got letters from the government of Canada that would surely be taken as at least an indirect government?—A. I would not think so.

Mr. McGEER: I would hardly think, Mr. Green, you could put that construction on it. Surely, Mr. Chairman, that is going away beyond the terms of the letter. What the letter states is you cannot get a contract either directly or indirectly through the government. Getting a letter of introduction from the Department of National Defence would surely have no direct or indirect bearing.

Mr. BERCOVITCH: Besides, the letter speaks for itself.

Mr. GREEN: I should like to hear what Major Hahn says.

Mr. McGEER: But you have no right to put a construction on the letter which the letter does not permit.

Mr. GREEN: I have the right to construe its contents in a manner which I think is reasonable.

Mr. BERCOVITCH: I do not think you have the right to ask Major Hahn to construe it for us. *Res ipsa loquitur* is a very old rule.

Mr. GREEN: We are not in a court of law now.

Mr. BERCOVITCH: I take it we are at least in a court of common sense, and common sense indicates to everyone of us that a written document speaks for itself.

The WITNESS: May I say this again? I said it yesterday and I would like to repeat it, in connection with the policies of the John Inglis company. I am the controlling owner. I know the plan that I want for the company and that I wanted from the outset. When I made up my mind to go after the munitions business it was my own idea, and I went after it on behalf of the John Inglis company at my own instance and without anybody's suggestions, and everything I did I did what I thought I should do to facilitate and expedite what I was after. My going to Ottawa was simply what I considered the logical thing to assist me in getting what I was after, and in no way could my trip to Ottawa be interpreted otherwise. I think I can go as far as to say that in the face of my negotiations, because I at no time knew that I was even then a representative of the government. I did not know that until I heard that in the court during the commission. I was acting representing the John Inglis company and simply a contractor out after business. And that was my position from start to finish.

By Mr. Green:

Q. And that is still your position?—A. That is still my position.

Q. You are a munitions contractor and you were out to get a munitions contract?—A. I am a manufacturer and I am out to get munitions business if it is of assistance to our business, but not a munitions contractor.

Q. So that you did not consider this letter from the Prime Minister to Mr. Hugh Plaxton, on the 12th of September, 1936, should be allowed to stand in the way of your trying to get munitions business?—A. I did not consider it anything else except an answer to the question I wanted to know. There was nothing to prevent me going to England and getting—

By Mr. MacInnis:

Q. What is meant by "an answer to the question I wanted to know"? Does that mean you asked Mr. Plaxton to write the Prime Minister?—A. I discussed with Mr. Bert Plaxton or Mr. Hugh Plaxton, or both, I do not remember, whether or not there was any objection to our company making munitions and exporting them. I was not clear as to what the situation was. And Mr. Bert Plaxton or Hugh Plaxton got the information for me. That is the entire situation.

Q. You knew of the letter to the Prime Minister?—A. I knew that after, as I say. I do not recollect. I do not think I knew that the letter was written, the particular letter and substance of the letter; I did hear of the answer to it and I saw the reply.

By Mr. Green:

Q. You knew Mr. Hugh Plaxton was being requested to get in touch with the Prime Minister?—A. I believe so. I do not remember, but I would think that is the natural thing.

By Mr. MacInnis:

Q. That is what we would have to understand from your previous answer, that you wanted to find out this information.—A. That is correct.

Q. That you talked it over with Hugh Plaxton and he agreed to write the Prime Minister?—A. As I say, I am not sure. I think it would likely be Hugh Plaxton as well as Bert Plaxton.

[Major J. E. Hahn.]

By Mr. Green:

Q. At any rate, Major Hahn, as you said yesterday in your statement; I decided to go to England to follow up the munitions opportunities which I understood were available and asked Mr. Hugh Plaxton if he would arrange an introduction to the Department of National Defence so I could get the necessary introduction to facilitate the purpose of my English visit?—A. That is correct.

Q. That was after a letter had been written by Mr. Hugh Plaxton to the Prime Minister and the Prime Minister's reply had been received?—A. I presume so, I do not know.

Q. But you knew when you came to Ottawa on October 6, 1936?—A. Yes.

Q. What did you consider were necessary introductions?—A. Well, the logical people to go to for business of that type were the war office. I was aware of that, and consequently any introductions that I could get from the Department of National Defence to the war office would be of assistance to me, if they were so disposed to give me an introduction; and I thought as a Canadian manufacturer I would be more or less entitled to some sort of introduction to help me get business if I could.

Q. And while in Ottawa you got recommendations from the Minister of National Defence?—A. That is correct. Yes.

Q. What date did you get that letter?—A. It was on the occasion of my second visit. It would be some days before I sailed. It would be about the 15th of October or thereabouts. I am not sure of the exact date, but it is there or thereabouts.

By Mr. MacNeil:

Q. Did you meet the minister?—A. Yes, I met the minister.

Q. Had you known him before that?—A. No, I had never met him before.

Q. Might I ask you why you then asked Mr. Hugh Plaxton to accompany you to England?—A. Well, again, I had no experience, no previous experience in dealing with departments of government, and I just thought in a vague way that he might expedite my visit over there, which he did as a matter of fact. I don't know just how or why I thought he might be useful, it might be useful to have him along, and that turned out to be the case.

Q. Did you offer to pay his expenses on behalf of the John Inglis Company?—A. I offered to pay his expenses, yes.

By Mr. Green:

Q. What help would it be to take a Canadian M.P. along to England?—A. Just exactly what I said.

Q. I know what you said, now—

By Mr. McGeer:

Q. Let us have the facts about that. You got there—A. We got there and there was considerable delay. I had this letter of introduction and again it was my experience—and in business you generally arrive somewhere—with this letter of introduction I expected to get off the boat and to be at the war office that afternoon, more or less. I waited there day after day and the appointment was not arranged and I asked Mr. Plaxton if he could do anything to facilitate the appointment and he went to the parliamentary secretary in England and he expedited the appointment.

Q. The parliamentary secretary; do you mean by that the secretary of the Empire Parliamentary Association, Sir Howard d'Egville.—A. I may be using the wrong term.

Q. And as a result of meeting Sir Howard d'Egville what happened?—A. I was notified of an appointment the following day.

Q. With whom?—A. Sir Thomas Inskip.

Q. Who was Sir Thomas Inskip; at least, what position was he occupying at that time?—A. He was what was known as the co-ordinator of defence.

Q. Co-ordinator of defence; as a result of that interview what happened?—A. Well, as a result of that interview they had an interview arranged with Sir Harold Brown, Director General of Munitions Production.

Q. For the war office?—A. For the war office.

Q. What took place at that interview?—A. At that interview I substantially covered the same ground as I had with Sir Thomas Inskip, pointing out the desirability of establishing a second source of supply in Canada and my interest in munitions production generally; and I went over with Sir Harold the letter that I had with me which was the photograph of the closed down John Inglis Company showing it in its closed down condition, the appraisal which I had along not so much for the value of the plant but as it showed particularly every phase of equipment in the plant.

By Mr. Brooks:

Q. That is the 1929 appraisal?—A. That is the 1929 appraisal, and it contained a very voluminous amount of detail showing every detail of the plant.

By Mr. McGeer:

Q. You had with you at that time photographs of the plant as well?—

A. Yes, I had with me photographs of the plant.

Q. And the plant as it existed at that time was fully disclosed to Sir Harold Brown?—A. It was absolutely closed down and he was told that we had just acquired it. We were planning to re-open it and photographs shown there on the record—you can see from those photographs it is a closed down plant without a man in it and not even cleaned up.

Q. Now, there has been some reference made to the representation that this plant was equipped to make munitions?—A. Yes, and did manufacture shells and did assemble airplanes, general assembly, in the north plant in the last war; a great deal of shell making machinery, which is still there, some of that equipment can still be used, and then our hydraulic presses, and so on; our forging presses, and our heat treating equipment as well are still useful for making shells. We have no high-speed lathes and one or two other items of equipment which are required in the production of shells to-day. But we were equipped, without any other equipment, to make munitions such as bombs. We were completely equipped to make tanks. As a matter of fact our complete shop is one of the best and most completely equipped shops not only in Canada but on the continent. There are certain types of munitions we could obviously make and could have made at that time without the addition of even a single machine.

Q. And that additional machinery you spoke about, high-speed equipment which is now used in the production of shells, that is all equipment of a type that has been introduced since the munitions production of the last war?—A. Oh yes, that has all been introduced in the last few years as a matter of fact.

Q. Was the plant as completely equipped for the making of munitions as it was during the period of time that it produced munitions for the great war?—A. Yes, and at that time it was one of the largest producers of munitions in Canada.

By Mr. Green:

Q. You did not see the plant during the war?—A. During the war? No.

Q. You don't know what it was like then?—A. No; but I know what it produced then and I know the equipment that was used and I know that portion of it which is still there.

[Major J. E. Hahn.]

Q. You and Mr. Hugh Plaxton—

Mr. McGEER: Would you mind if I just finished what I had in mind?

By Mr. McGeer:

Q. So that so far as the representation was concerned you were equipped to produce munitions, there was no misrepresentations in respect to that?—A. None whatever. We still say without the addition of a single machine we are equipped to make very substantial munitions.

Mr. MACNEIL: But not precision work—

Mr. McGEER: I am just coming to that.

By Mr. McGeer:

Q. Was there ever any representation made that you were equipped to make small arms?—A. None whatever.

Q. And Sir Harold Brown and Sir Thomas Inskip were both aware of that fact when you discussed the plan with them?—A. Yes, they obviously were; because not only did the photographs of the plant and the appraisal show that but I had large scale blueprints showing every building in the plant, every machine in the plant, and the capacity and function of every machine in the plant.

Q. Now to anyone who knows anything about the armament trade or the armament industry the representation that you were equipped to produce munitions and armaments would not include the representation that you were equipped to produce small arms, which is entirely a different branch of the work?—A. That was never intended.

Q. And there was never any such representation made?—A. No, it was never even thought of.

Mr. MACINNIS: How can my friend say there never was any such representation made? He was not there, evidently, and he knows nothing about it. All he is doing is putting words into the mouth of the witness and asking him to say yes or no to those words and suggesting to him what he should say.

Mr. McGEER: What I had in mind, Mr. MacInnis,—

Mr. MACINNIS: I know what you had in mind.

Mr. McGEER: Oh, no, you don't; I just want to bring this point out.

Mr. MACINNIS: Oh, yes, I do.

Mr. McGEER: You may think you do.

Mr. MACINNIS: Oh, I know what you are trying to get at.

Mr. McGEER: Permit me to say openly, plainly and frankly; I am dealing with the representations that were made in the letters which were written which were strictly confined to matters of munitions and armaments. Now I suggest to you that if you can show any single instance where there was a representation made other than that of being equipped to produce munitions and armaments then I have not been able to find it in the evidence before the Davis commission. And now, what I am asking this witness is if there is not among people who are conversant with the armament industry clear cut division between the production of armaments and munitions, and small arms? Now, when you are dealing with this industry the production of small arms is just as much apart from the production of munitions and armaments as any two things could possibly be; and I think that where the confusion as to the misrepresentation has been is that without knowing the trade or the terms or the meaning of the terms used in the trade it has been interpreted or concluded that a representation that you are equipped to produce munitions and armaments included the representation that you were equipped to produce small arms.

Mr. MACINNIS: What is meant by small arms?

Mr. MACNEIL: Might I suggest, Mr. Chairman, that we should follow the procedure decided upon yesterday, that we would go ahead with the examination of Major Hahn, let him complete his evidence, eliminating argument as far as possible and confining ourselves to practical questions. I think we will make better progress that way. Major Hahn is a busy man, and no doubt he wants to get back to Toronto. I think we agreed to eliminate all argument at this stage that we might release Major Hahn at the earliest possible moment.

Mr. McGEER: What I was asking the witness was, is there not that division in the minds of people who understand the arms industry sufficiently established to preclude the possibility of anyone being deceived by a representation that you are equipped to produce armaments and munitions into believing that you are equipped to produce small arms.

Mr. MACNEIL: I am not objecting to any question whatever.

By Mr. McGeer:

Q. Then, I put it to you, Major Hahn, could there be any possible deception to men like Sir Thomas Inskip or Sir Harold Brown or the officials of the war office in London by your representation that you were equipped to produce munitions and armaments; could they take that to mean that you were also equipped to produce small arms?—A. No, they could not, because in the first place I not only showed the data that I indicated to Sir Harold Brown and he turned that over to Mr. Whitham who is director of industrial planning for the war office—in other words, he is in charge of the investigation of all industrial plants as to their suitability for industrial production.

By Mr. Factor:

Q. You showed him the blueprints?—A. Everything was turned over to him. As I say, Sir Harold Brown saw them and he had them turned over to Mr. Whitham.

Mr. BERCOVITCH: The Davis report covers that. It says:—

Major Hahn then had an interview with Sir Harold Brown and took with him a book of photographs of the Inglis plant (Exhibit 328) and an appraisal of 1929 (Exhibit 297) and large scale blueprints of each building of the plant, showing the machinery and the capacity of each machine. These documents Sir Harold Brown told him to turn over when he was at Enfield to Mr. Whitham, the director of industrial organization which is part of the war office.

Mr. MACNEIL: Was that a question?

Mr. BERCOVITCH: No, it was not a question.

By Mr. McGeer:

Q. Through the offices of the secretary of the Empire Parliamentary Association you met Sir Thomas Inskip, and then you met Sir Harold Brown?—A. Yes.

Q. And you placed photographs of your plant and equipment fully before them both, and then as a result, following Sir Harold Brown's instructions, you then placed that information at the disposal of Mr. Whitham who was in charge of industrial armament production for the British government?—A. He is in charge of industrial planning for them.

Q. He is in charge of industrial planning?—A. Yes, sir.

Q. And he is thoroughly conversant with the whole situation?—A. That is correct.

[Major J. E. Hahn.]

Q. And he had before him the photographs with reference to the existing equipment of the John Inglis Company at that time?—A. That is absolutely correct.

Q. And there was no representation made to him that you were equipped to produce small arms?—A. Not only that, but I told him that I did not have any experience in the manufacture of small arms.

Q. And Sir Harold Brown knew that none of this machinery was such that could be used at all in the manufacture of machine guns?—A. I would say this; that is not quite correct. For example, there are a number of plants in Canada that have one or two machines of the type needed on this work. We have some which we could use on it and which we are using on it. For instance, we have a particularly good pattern shop and in that pattern shop we have made all the patterns for the machine gun, and I imagine we have sixty odd machines throughout our plant in the last year working—we have shapers, we have small lathes, we have drills.

By Mr. Brown:

Q. That is really doing commercial work, it is not actually doing work for the making of a machine gun?—A. Oh, no; I am talking of the machine gun entirely.

Q. They are not all special machines?—A. No, they are not all special machines, but the thing is that about 90 per cent of the machinery required for the manufacture of machine guns is either one special machine that has absolutely no application for commercial production or, secondly, required in such large numbers and batches that no commercial firm would have as many as one should have to do the work. I do not know whether or not I have made myself clear on that point; my point is this, that we have to have a large number of operations, we have to have shapers, we have to have a number of milling machines—any company may have a couple of milling machines—but in an undertaking like ours we would have to have milling machines in batches of 50 and 60 and 75; and such equipment as barrel-drilling, barrel-reaming machines—it is obvious that equipment has no use whatever except for a commercial job—profiling machines which are very expensive—we will have a battery of 60—of no use whatsoever except for the manufacture of small arms.

Mr. McGEER: But in your preliminary—

Mr. GREEN: Just let Mr. Brown finish.

By Mr. Brown:

Q. You said that you could manufacture tanks, what kind of tanks do you mean?—A. The caterpillar tractor tank.

Q. What types of them could you manufacture; you could not manufacture the engine or anything like that?—A. No, we would not manufacture the engine, we would manufacture the rest of the tank.

Q. Probably armour it?—A. The armour plates, the tractor tread—we could manufacture probably the whole tank except the engine. The engine would be one of special design involving special specifications—I do not think we could possibly undertake the manufacture of the engine, but we do manufacture engines, we are in the marine engine manufacturing business. But I would say that we could manufacture the whole of the tank outside of the engine.

Q. And with the equipment that you have what operations on shells could you perform?—A. We have the hydraulic presses, we have the forges and the extruding equipment.

Q. You say you have the forges, would you not get your billets from the field company?—A. We have no equipment for producing the billets, but we

get that from the steel company and we carry on from there; we can forge it, we can extrude it and machine it up to the highspeed lathe and turning work.

Q. Well, a lot of those firms that were manufacturing shells in the last war have been advised that their machinery was out-dated for the manufacture of shells at the present time?—A. That is correct, yes.

Q. And you have no idea how old these machines are, the machines in the Inglis plant?—A. No, but there is no confusion there; we need only add a certain portion of the equipment; and what is more important, we have available experienced help who did actually manufacture these shells in that plant of the old John Inglis Company during the last war and that to me is equally important. The machinery would have to be put in in any event to conform to modern highspeed production; but between a portion of the machinery and the skilled help we have, as I said before, we have all the men needed, the key personnel of the John Inglis Company.

Q. Did you have that staff employed at the time?—A. I did not then. But one of the things I said was that I had spoken to a number of the men and they were all anxious and willing to come back, I knew they were available.

By Mr. MacNeil:

Q. Prior to your departure for England were you informed as to the requirements of the Canadian forces with regard to the Bren gun?—A. No.

Q. Did you have a discussion with either the deputy minister or the minister as to the possibility of your company obtaining or executing a Canadian contract?—A. I discussed the question myself with General LaFleche on the occasion I think of my visit before I left for England and I was told that it either was or would be adopted for use by the Canadian forces but that the policy with respect to its manufacture had not yet been crystallized; they were waiting I think for the report of some commission sitting in England before making the Canadian decision as to whether they would make it themselves or have it done by private industry.

Q. If you, as you say, went to England as a private contractor, why did you then submit a bill for your expenses on that trip to the Canadian government?—A. I am very glad you brought that up. I would like to answer another thing that I see raised here on Wednesday, May 3rd. When I saw General LaFleche the first time and he told me that the Canadian policy was not clear I told him that I was very glad to get that information, to get information for him regarding the Bren gun while I was in England. I did not know at that time what their decision would be or what their attitude was. I was simply going to England to get any munition business I could, whether tanks or shells. As a matter of fact you will notice that the minister's letter asks not for Bren guns but for all types of munitions.

By Mr. Green:

Q. When you say the minister's letter, you are referring to some letter of recommendation from the minister to yourself, Major Hahn?—A. That is correct.

Q. This is the one:—

Oct. 19, 1936.

DEAR MR. MASSEY,—The bearer of this letter, Major J. E. Hahn, D.S.O., M.C., is in England to investigate the manufacture of all classes of munitions and armaments. I am anxious that he be afforded every facility and access to enable him to ascertain and bring back complete manufacturing data and costs governing manufacture of munitions and armaments.

That was the only recommendation you took to England?—A. That is correct.

[Major J. E. Hahn.]

By Mr. MacNeil:

Q. Were you aware of the other letter written on October 20th?—A. No, I was not.

Q. And that it was with particular reference to the Bren machine gun?—A. I did not know of that letter until the investigation.

Q. Had you any agreement with the deputy minister or any other official that you were going to make enquiries with particular reference to the Bren machine gun?—A. I had no agreement. I had seen the gun. I am very much interested in fire arms in any event, and I told the deputy minister that I would be glad to investigate and get all the information I could; and if there were any possibilities for business, for private enterprise, I was naturally interested in it. If, on the other hand, it was decided to make the guns by some other method they were absolutely welcome to any information that I could supply and they would be under absolutely no obligation to me at all. And now, I would like to record that fact again, because it is a fact, and another one of those facts that have been very lightly dealt with and very lightly disposed of; but that is the statement I made and that is the statement I meant. You ask why I put in expenses? I had no intention whatever of putting any expenses at that time when I went down to Ottawa. Hindsight is better than foresight. I had no idea at that time that I was going into a situation that would take over a year and a half to negotiate and where I was submitting proposal after proposal involving a great deal of engineering data, and that I was ultimately instrumental in the negotiation of a contract that was not the only contract placed, but that meant an actual definite saving to this country of over half a million dollars. I certainly felt on the basis of that situation and after that had been accomplished, that I was certainly entitled to the expenses involved in those negotiations and in the consummation of an arrangement that actually saved the country over half a million dollars. That I decided after that was done, and I considered it was an absolutely legitimate charge. I do not see how in the world in the face of what was accomplished it can be questioned; and also considering that we have undertaken a tremendous engineering task in the organization and setting up of this plant which, after all, belongs to the government: it does not belong to us. We have undertaken this work for the first two years at an exceedingly small profit. As a matter of fact, what is our profit of last year? Our profit last year is the expense of an investigation. That is what our profit is. Our profit last year is an expense. We are perfectly willing to undertake that intricate task, probably one of the most intricate manufacturing tasks that exists in Canada, which we are qualified and competent to carry out.

By Mr. McGeer:

Q. Would you mind clarifying what you mean when you say "Our profit is an expense"?—A. Well, I mean the profit as indicated by the evidence here the other day was, I think, so far \$11,000 or something, of the payments that have been made.

Q. Yes?—A. And I can leave it to your imagination what the expenses have been of this investigation; to the John Inglis Co. the munitions business so far has been a loss, very definitely a loss.

By Mr. Green:

Q. You are just getting started. You have still \$440,000 to make.—A. Well, it is not \$440,000. The total profits on the Canadian contract—

Q. And the British contract?—A. And the British contract? We are talking of the Canadian contract; and, after all, we are entitled to the British contract.

Q. We are talking of what profits you can make on the manufacture of Bren guns and the total is \$450,000.—A. The total is not \$450,000. The total maximum profit is \$387,000.

Q. How do you figure that out?—A. After income tax.

Q. Suppose you lose money on your commercial division? Then I suppose there will be no income tax to pay in respect of the Bren gun; they are all one business?—A. We do not intend to lose money on our commercial business. We are in business to make money.

Q. The question of income tax involved in the Bren gun division is also involved in the commercial division.

Mr. McGEER: We had that in the examination of Mr. Elliott.

Mr. GREEN: Mr. Chairman, Mr. McGeer has no right to interfere with me.

Mr. MacNEIL: That is a fair question.

Mr. McGEER: Just a minute. We examined the income tax officer on that.

Mr. GREEN: That is a perfectly fair question. Major Hahn is perfectly able to take care of himself, probably better than Mr. McGeer is able to help him. I suggest that he keep still when we are asking questions.

The CHAIRMAN: I think myself that if Major Hahn is prepared to answer that question, he will clarify it himself.

Mr. McGEER: Yes. But what I am pointing out is that we examined Mr. Fraser Elliott, who is commissioner of income tax, on that very point; and if you will remember, Mr. Homuth brought that question out and it was dealt with very fully in the record. What Mr. Elliott said was that there would be no such division as that allowed at all, that they would see to it that the profits on this contract were dealt with on the individual operations.

Mr. GREEN: Mr. Elliott stated nothing of kind. Mr. Elliott stated just the opposite. He said the whole business of John Inglis Co. including both commercial and Bren gun divisions would be considered as one for the purpose of income tax, which is obviously the law.

The WITNESS: Could I answer that in this way?

By Mr. Green:

Q. I want to get that point clear.—A. Why take a hypothetical case? Why say we may lose money or make money on the commercial division? The fact is that on the joint Canadian and British contracts the maximum profit that we can make is \$387,000, assuming we do not lose any money on the commercial business.

Q. That is a hypothesis, also; you may lose. You have to consider the two businesses together for income tax purposes.

Mr. BERCOVITCH: That is the fact.

The WITNESS: The fact is that, no matter how you figure it, the maximum we can make is \$387,000, is it not?

By Mr. Green:

Q. If you lose money on your commercial division this year and make money on your Bren gun division, you may have no income tax to pay at all; and the very same thing might be said of the other years.—A. Yes, if you work it that way. But why assume that we are going to increase, that we are going to get, that we are going to gain on income tax because we are going to lose money on the commercial division? That is not a fair assumption to make.

Mr. McGEER: It would be equally fair to make the assumption that if you lose money on the Bren gun contract and you make money on your commercial business, you would be in the same position, that you would have to pay tax just the same.

[Major J. E. Hahn.]

By Mr. Green:

Q. What I am asking is this: You cannot say you are bound to pay so much income tax, because that depends not only on the Bren gun division but also on the commercial division, does it not?—A. That is correct, yes.

Mr. McGEER: What about your rejections?

Mr. MACNEIL: We dealt with that yesterday.

Mr. McGEER: We might have it included as part of this record.

By Mr. Brown:

Q. Major Hahn, you have stated that by obtaining this contract you saved the country half a million dollars, was it?—A. Very nearly half a million dollars.

Q. What reasons have you for believing that the Canadian government could not get the same contract from the British government and save the same amount?—A. I have no reason to believe that at all; but the fact is, I did it.

Mr. GOLDING: That is the point.

Mr. GREEN: We will go into that.

Mr. MACINNIS: Because he had the inside track.

By Mr. Green:

Q. First of all, you started out with a letter of introduction from the Minister of National Defence to the high commissioner?—A. That is correct.

Q. You got to England and you could not get an interview with the British authorities on the strength of that letter of introduction?—A. That is quite right. What actually happened was this. I assume that what we are interested in are the facts. What actually happened was the letter—what I asked for was not only access to the Bren gun plant which anyone could have got on the basis of that letter; there would have been no difficulty whatever. As a matter of fact, I think there is no problem for any citizen to get into the Bren gun plant. But I asked, in addition to that, for the cost of the gun and information as to the alloys; and that is the only reason there was any delay. Apparently, as I gather from the correspondence that passed that I saw during the commission—because I did not know why I was being delayed—the war office took the stand that to give any contractor information that involved actual cost and actual secret data as to alloys, that he must be vouched for in that particular thing by the government.

Q. I refer you to commissioner Davis' report on page 23 which certainly makes it look as though you were pushed in the door by the Canadian government—pushed in the war office door. At page 23, we find:—

Major Hahn and Mr. Hugh Plaxton called on Mr. Massey, the high commissioner, upon their arrival in London. They gave to him the minister's letter of introduction.

Which I read a few minutes ago?—A. Yes.

Q. Continuing:—

Major Hahn was given to understand, he said, that an appointment would be arranged for him at the war office and after waiting for something over a week he says he became, "very, very impatient, I am afraid."

Is that correct?—A. That is correct.

Q. Continuing:—

And he telephoned the Minister of National Defence in Ottawa from London.

Is that correct?—A. Yes.

Q. Continuing:—

Mr. Hugh Plaxton says he was in the room with Major Hahn when the latter was telephoning to the minister. Major Hahn had a curt reply from the minister and that Mr. Hugh Plaxton then sent two cablegrams.

That is correct?—A. That is correct.

Q. Continuing:—

One to the minister and one to the deputy minister, both dated November 9 (exhibits 82 and 204). The next day Major Hahn was made the representative of Canada in this particular; i.e., the Bren gun (exhibit 99).

A. Yes.

Q. Is that correct?—A. That is correct.

Q. Continuing:—

The cablegram from Mr. Hugh Plaxton to the Minister of National Defence from London on November 9, 1936 (exhibit 204) read as follows:—

Re conversation with Hahn respectfully suggest question of policy not involved Stop Seems purely matter of High Commissioner requiring instructions from his department concerning Hahn's status as per your letter to High Commissioner Stop This urgently required Stop Cabled LaFleche this morning in case you not in Ottawa.

Q. That is correct, is it? That is the cable that was sent?—A. Yes.

Q. And you knew then that that was being sent?—A. Yes.

Q. Continuing:—

Mr. Plaxton's cablegram to the deputy minister on the same day (exhibit 82) read as follows:—

Relayed pending receipt by High Commissioner of proper authority from external affairs authorizing him to afford immediate and complete co-operation to Hahn. High Commissioner cabling his department to-day. Will you kindly communicate with external affairs to expedite this. Regards. Hugh Plaxton.

You knew that cable was being sent?—A. Yes. Wait a minute: Which cable is that?

Q. That is the cable from Mr. Plaxton, M.P., to the Deputy Minister of National Defence.—A. Yes.

Q. You knew of that cable?—A. I probably did.

Q. Then the commissioner goes on on page 24 as follows:—

And the reply of the deputy minister to Mr. Plaxton on the same day (exhibit 82) read as follows:—

I first wrote external affairs on 20th October and am inquiring to-day requesting speedy action.

Q. You knew that that reply was received by Mr. Plaxton?—A. Yes.

Q. Continuing:—

A cablegram from the High Commissioner in London to the Secretary of State for External Affairs of November 9 (exhibit 98) read as follows:—

You also knew of this? You knew of this cablegram, did you not?—A. Which one is this?

Q. From the High Commissioner to the Secretary of State for External Affairs.

[Major J. E. Hahn.]

Mr. MACINNIS: The prime minister.

The WITNESS: From the High Commissioner?

Mr. MACINNIS: To the prime minister.

The WITNESS: No.

By Mr. Green:

Q. It is dated November 9.—A. No, I did not.

Q. I will read it to you and perhaps it will refresh your memory.

Mr. McGEER: What is the page?

Mr. GREEN: Page 24. It reads:—

Secret. 396. Have received to-day following request in a wireless message direct from national defence—

The WITNESS: Oh.

Mr. GREEN: Apparently the Department of National Defence had cabled the High Commissioner as a result of Plaxton's cable.

The WITNESS: Will you read that? I thought you said a cable from the High Commissioner.

Mr. GREEN: It reads:—

Please request Major Hahn now in England to communicate with me through your office in cypher his impression as to possibility of producing Bren gun in Canada. This is urgent and ask him to give details such as time required for delivery and estimated cost.

You knew of that cable, did you not?

Mr. FACTOR: That is not the cable. Read that. That is the content of the message from the National Defence to the High Commissioner.

By Mr. Green:

Q. You knew of the cable from National Defence to the High Commissioner which I read?—A. No. What I got there was a letter—I believe there was a letter from the High Commissioner. I did not see this cable. I got a letter from the High Commissioner asking me to get the information relative to the Bren gun. I was not shown this cable.

Q. Continuing:—

In order obtain information desired, war office must be requested to give Major Hahn, as representative of the Canadian government, access to information of a secret nature which normally is not given to other than government officials.

Major Hahn also informs me that Minister of National Defence has requested him to obtain, if time permits, all available information regarding manufacture of tanks and shells which would also necessitate similar request from the war office.

Which shows you had been speaking to the high commissioner about the whole situation?—A. Yes.

Q. And explaining just what you wanted?—A. Yes. I went to the high commissioner as soon as I arrived in London and gave him the letter of the minister.

Q. Continuing:—

Before making any application to the war office, would appreciate instructions. Would be grateful for such instructions by to-morrow if possible.

You knew that action was being taken by the high commissioner?—A. No, I did not. I knew nothing of the kind. All I know—as I told you before, I knew nothing of this correspondence. I knew nothing whatever that I had been in any way made a representative of the Canadian government. I did not know that until that came out in the evidence last Fall.

Q. Perhaps we could put it this way: Finding that you could not get in the war office, you had Hugh Plaxton cable the Minister of National Defence and the deputy minister and you phoned the Minister of National Defence?—A. That is correct.

Q. And you also went to the Canadian high commissioner?—A. That is correct.

Q. To try to get him to arrange for you to get into the war office?—A. I went to the high commissioner in the first instance.

Q. But you went to him again at this time, did you not?—A. I was in touch with him all the time, to see if we could not get this appointment.

By Mr. MacNeil:

Q. You knew you would have to secure such status in order to get this available information?—A. I have said a number of times I did not know that. I mean, you gentlemen want the facts and I want to give them to you.

Q. Certainly.—A. I knew nothing of this at all. I knew I was there. I knew I was delayed. I did not know at any time—and I want to get it perfectly clear—that I was in any other capacity except that of a contractor looking for business for his company.

By Mr. Green:

Q. You were a munitions contractor looking for a munitions contract, as you said?—A. Absolutely.

Q. And you were taking every means you could to get it?—A. That is correct. I knew nothing of this representative of the Canadian government business. That was absolutely news to me when I heard it.

By Mr. MacNeil:

Q. When you went to the Enfield plant, were you furnished with any particular document?—A. No. I was given a letter by Sir Harold Brown to Mr. Robinson who was in charge of the Enfield plant.

Q. Were you aware at that time of a letter which was later produced as exhibit 1 or 2, signed by Mr. Widdows in the high commissioner's office which reads as follows:—

With reference to your letter of the 11th instant, I am commanded by the Army Council to confirm that arrangements have been made for Major J. E. Hahn, D.S.O., M.C., as representative of the government of Canada, to visit the Royal Small Arms Factory, Enfield Lock, Middlesex, where he will be afforded facilities for examining the methods of production of Bren guns.

I am to add that the council hopes to be able to furnish, at an early date, the information requested in your letters No. A3/36 of the 6th and 9th instant.

I am, sir, your obedient servant,

(Signed) A. T. WIDDOWS.

Were you aware of that letter?—A. No. All I had was a letter from Sir Harold Brown; simply a letter of introduction to Mr. Robinson of the small arms plant.

Q. Did that letter contain any reference to your being a representative of the Canadian government?—A. No.

[Major J. E. Hahn.]

By Mr. Green:

Q. I just finished reading the cable from Mr. Massey to the prime minister on November 9.—A. Yes?

Q. Then apparently the commissioner finds that there was a reply dated November 10 which reads as follows:—

Secret. Your cablegram 9th November 396—

Mr. FACTOR: What page is that?

Mr. GREEN: It is page 24.

By Mr. Green:

Q. Continuing:—

Have discussed matter with Minister of National Defence. You might request war office to give Major Hahn, as representing Canadian government in this particular, any information which they consider desirable and necessary to enable national defence to reach conclusion on possibility produce Bren gun in Canada. It is not desired to request furnishing of information on any article other than this gun.

You knew there had been a reply back from the Secretary for External Affairs?—A. No. All I know—as I told you—I got a letter. I do not know whether that letter is an exhibit or not.

Q. No.

Mr. BERCOVITCH: Let us have his answer, a letter from the high commissioner.

By Mr. Green:

Q. Would that be the letter of November 11th, 1936, on page 25 of this report?—A. It asks me specifically to find out about the Bren gun, about costs and time of delivery. That is the only document I got.

Q. That letter is on page 25 and it is from Col. Vannier of the high commissioner's office to yourself, dated November 11th, 1936, and reads as follows—

Mr. FACTOR: Wait a minute. Mr. Chairman, could we not save some time by just including that?

Mr. BERCOVITCH: What I am anxious to do is to get Major Hahn's answer to the question Mr. Green put. He interrupts the answer and reads something else into the record.

Mr. GREEN: I am asking if this is the letter to which Major Hahn referred.

Mr. BERCOVITCH: Very well. If he referred to it, he has the right to read that after he has concluded his reply. I think that would be a much better way to proceed. We do not want to get part of an answer and go on with something else.

The WITNESS: That is correct.

Mr. BERCOVITCH: Will you continue with your answer now?

Mr. GREEN: Now, Mr. Chairman, Mr. Bercovitch has no right to interrupt like that. Major Hahn has said this is the letter about which I asked him, and I propose to read it.

Mr. BERCOVITCH: I know. Mr. Chairman, I think I have the right to ask this committee or you as chairman that the witness be permitted to give his reply to the questions that are put; and until we get that reply we are not in a position to follow this record at all. Because Mr. Green puts a question which Major Hahn proceeds to answer; he is interrupted and then another letter is read into the record and finally we have no answer to the question at all. I

submit we should allow the witness to complete his reply. Then Mr. Green can follow up with any other questions he has in mind. That is the only way to keep the record in any shape.

Mr. GREEN: In order that the record may be straight, I should like to read the letter and then Major Hahn can reply as he sees fit.

Mr. BERCOVITCH: Do you want to strike out your last question?

Mr. GREEN: I want to read the letter now.

Mr. MACNEIL: Go ahead.

Mr. GREEN: It reads:—

The high commissioner has asked me to inform you that the Minister of National Defence has cabled a request—

Mr. ISNOR: Why not read the first part?

Mr. GREEN: That is the first part.

Mr. ISNOR: Start with the first.

Mr. GREEN: I am reading the first.

Mr. FACTOR: It may not be in the letter but it certainly has a direct bearing on the answer that Major Hahn—

Mr. GREEN: I have no objection to reading the paragraph.

Mr. FACTOR: Just a minute—the answer that Major Hahn intended to give before Mr. Green interrupted his recitation.

Mr. GREEN: I do not object to reading that paragraph. The paragraph of the report is as follows:—

The only communications Major Hahn said he had up to this time, were the minister's letter of introduction (exhibit 135) of October 19, 1936, and Col. Vannier's letter to him of November 11, 1936 (exhibit 101) while in London which read as follows:

Mr. FACTOR: That is exactly what Major Hahn wanted to answer and you interrupted and started reading the letter.

Mr. GREEN: Continuing:—

The high commissioner has asked me to inform you that the Minister of National Defence has cabled a request that you should communicate to him in cypher through this office your impression as to the possibility of producing the Bren machine gun in Canada. The Minister of National Defence states that this matter is urgent and asks that you give him details such as time required for delivery and estimated cost.

For your information I should like to add that the war office has been requested to give you any information which they consider desirable and necessary to enable the Department of National Defence to reach a conclusion in the above matter.

Mr. BERCOVITCH: What is your question?

By Mr. Green:

Q. Do you wish to say anything about that letter?—A. No. That letter is the only communication I had after arriving in London, and all I knew of any communication; that is the only communication I had.

Q. You also had the cablegrams of Plaxton?—A. No. I am talking about from the high commissioner.

Q. You had had continuous interviews with the high commissioner or with a representative of his office?—A. That is correct.

[Major J. E. Hahn.]

By Mr. Factor:

Q. You knew nothing of these cablegrams that passed between the high commissioner and the Secretary of State for External Affairs?—A. I have already said I knew nothing whatever of those cablegrams.

By Mr. Green:

Q. You knew they were communicating but you did not know what the communications were?—A. That is correct, yes.

Q. Then Commissioner Davis goes on to find that you were then informed by the high commissioner's office that an appointment had been arranged for you with Sir Thomas Inskip?—A. That is right.

Q. You did not arrange the interview at all; the high commissioner arranged that for you?—A. The high commissioner arranged it and Mr. Plaxton accelerated it. That is what actually happened.

Q. The same thing happened with regard to the subsequent appointment with Sir Harold Brown?—A. I forget whether I was notified by the high commissioner or whether I called Sir Harold Brown after that meeting. All I remember is that Sir Thomas Inskip told me that an appointment would be arranged with Sir Harold Brown. The detail of that I forget. I know I was notified.

By Mr. Bercovitch:

Q. Then you saw Sir Harold Brown who, in turn, referred you to someone else?—A. Who in turn turned over the documents to Mr. Whitham and gave me a letter of introduction to the Enfield plant.

By Mr. Green:

Q. So that at least the Canadian government certainly helped you to open the door of the war office, did it not?—A. Well, I would expect the Canadian government to assist me or any other manufacturer in trying to get business.

Q. And you knew from the last paragraph of the letter from Col. Vanier on November 11 that the war office had been requested to give you this information on behalf of the Canadian Department of National Defence?—A. I knew what was said in that letter. I would like to say this while we are on it. You suggested before that I was pushed in the door.

Q. It looks that way.

Mr. BERCOVITCH: Let us have his answer.

The WITNESS: I would like to say this: I was assisted by an introduction to the war office and I got into the door of the war office the way any Canadian manufacturer can and the way a great many of them did about the same time; and I would have been just as quickly pushed out of the door of the war office if I did not know what I was talking about, regardless of all the letters of introduction of the Canadian government.

By Mr. Green:

Q. That may be.—A. I would like to state that because I know that to be a fact.

By Mr. Bercovitch:

Q. You not only would have been pushed out; you would have been kicked out.—A. Yes.

By Mr. Green:

Q. You would not contend for a minute that all Canadian manufacturers are made representatives of the Department of National Defence in the way that you were?—A. No. But, Mr. Green, is it not perfectly obvious? I mean, why waste all this time about this representative business? Is it not perfectly obvious—

Q. It is not wasting time.

Mr. BERCOVITCH: Let us have his reply.

The WITNESS: Is it not perfectly obvious why I was made a representative of the Canadian government? The record clearly states in this instance—

By Mr. Green:

Q. It is obvious to us.—A. I have clearly stated for what purpose. It is perfectly obvious if any manufacturer wants to get into an arsenal in England and go through it, I would imagine any letter of introduction, just as I had, would suffice. But if that contractor did as I did and said, "I do not only want to get into that arsenal, but I would like to know what your detailed costs are and I would like to know what the data is and what are the alloys that you use in your gun," I do not imagine he could get into that unless he had some sort of special permission; and that is all this representative of the Canadian government amounts to or has amounted to.

By Mr. Bercovitch:

Q. It was just a pass?—A. That is all it was.

By Mr. Golding:

Q. If it were not for your initiative and determination you would not have got in there at all?—A. Not at all.

By Mr. Green:

Q. No, and if it had not been for the pushing you got from the Canadian government you would not have got in there at all?—A. That is not correct, Mr. Green.

Mr. GOLDING: No credit is given to Major Hahn for his initiative.

Mr. BROOKS: Major Hahn deserves a lot of credit for looking after himself.

By Mr. Green:

Q. We give Major Hahn credit for being an energetic munitions contractor, but the point is, Major Hahn, that in your statement yesterday you took all the credit for going to England and getting into the war office and led us to believe that you yourself had done the whole thing.—A. Again I will state by virtue of the circumstances I went to England on my own initiative at the time I took the first trip. No one asked me to go. When I arrived in England I found a secondary source was in contemplation. I immediately took every step I possibly could to divert that to Canada. With the assistance I had and which I think I or any other contractor was rightfully entitled to, and the Canadian government having the good business sense, which is all it is, to follow up an opportunity that was there and which I was ready to follow up, I simply ultimately consummated that possibility. That is what this whole transaction amounts to.

By Mr. Bercovitch:

Q. Which saved the Canadian government?—A. Which saved the Canadian government over \$1,000,000.

Mr. GREEN: Oh, you drag that in all the time.

Mr. BERCOVITCH: That is a fact.

Mr. MACINNIS: No, it is not a fact at all.

Mr. GOLDING: Mr. Chairman, does anyone suggest that even now the government could manufacture those guns in their own arsenals at less than private industry?

[Major J. E. Hahn.]

Mr. BROWN: Yes.

Mr. GOLDING: Can you tell me anything that a government has undertaken economically?

Mr. MACINNIS: No; not even this.

Mr. MACNEIL: That is a matter of argument, Mr. Chairman.

By Mr. MacNeil:

Q. Major Hahn, up to this stage, you have traced your negotiations; what was your understanding then as to your status in order to secure confidential information at the Enfield plant?—A. Well, you see, still, Mr. MacNeil, I did not know up to that time of any status at all. I simply knew that I had asked to get into Enfield; I had asked for costs and bill of materials and, ultimately, I was given access to Enfield with permission to get what I wanted. That is all I knew.

Q. On your evidence a moment ago with regard to expense accounts, you realized subsequently that you were acting as a representative of the Canadian government during that period?—A. No, I realized at the commission that this cable had been sent, which was, as a matter of common sense, simply to clarify my request to go in there and get information that was not usually given to any contractor and could not be given and would not be given to any contractor without some such sort of request.

Q. I am referring for the moment to your expense account; that was submitted prior to the Davis enquiry?—A. That is correct.

Q. At what stage did you realize your position, during the time we are now discussing, was actually that of Canadian representative?—A. I still do not consider that I was in any position of a Canadian representative. I still think that this thing is exactly what it is, to facilitate my getting certain special information which normally is not given to a contractor walking into a plant.

By Mr. Bercovitch:

Q. Were these alloys which you mentioned secret formulae?—A. Secret, yes.

By Mr. MacNeil:

Q. At what stage did you make proposals to Sir Harold Brown with regard to a Canadian order and financial assistance in the matter of capital expenditure from the British war office?—A. I made that before I returned to Canada on my first trip in November, 1936. As soon as I went through the Enfield plant, or may I anticipate for a moment? Before I left for England I had the gun sent up to Toronto to take it down and get some idea of the tooling and manufacturing processes. Then when I went through the plant I saw that the tooling would be a very costly thing, and I also saw that with specialized machinery the capital expenditure would be very large. I had one or two conferences with Sir Harold Brown before I returned to Canada and at those conferences suggested two things: One, the placing of this secondary source in Canada and an order for 5,000 guns with our company; secondly, the British government bearing part of the capital expenditure involved. And that is on record in a letter somewhere that I wrote to him in November, 1936.

Q. On that point, Major, you wrote that letter on November 19, which is exhibit 102. I wonder if we could have that exhibit placed before Major Hahn so that he may refresh his memory. I suggest you discussed not only a British contract in the British war office be placed with your firm but that you also discussed the organization of a Canadian unit for the completion of the Canadian contract in Canada. My question is, what authority did you have at that time to negotiate on behalf of the Canadian government with regard to a complementary Canadian contract?—A. None whatever, and I did not—where is that?

Q. Exhibit 103, a copy of a letter to Sir Harold Brown dated November 19, from Major Hahn.—A. Oh, yes, I have the exhibit here, Mr. MacNeil. "This contemplated the Canadian unit (that is our company) organizing all its sources of supplies and raw materials in Canada." I was not at that time even suggesting—

Q. May I refer you to the third last paragraph:—

Under such an arrangement guns sold to the Canadian government would carry their proper pro-rata preparation cost. There are other obvious details which can be dealt with once the general basis has been found acceptable.

Is it not clear that you were then discussing not only the British contract but a Canadian contract?—A. No. What immediately arose was the question of Canadian production, going into our plant. If that could be arranged, if we would go into the manufacture, obviously we would want to get the Canadian business, and Great Britain obviously would want the saving on the Canadian production.

Q. On what authority did you proceed with that discussion? You gave evidence before that you had not discussed Canadian requirements with deputy minister or any official of the department; now, at this stage, on what authority did you start negotiating with regard to Canadian production or requirements?—

A. There is no negotiation there. That is simply still a possibility. The whole thing at this juncture is still a possibility, has simply reached the stage where Sir Harold Brown says, "I am interested in a second source of supply, or the possibility—it is not definite—in Canada—but I am interested, and you can go back and tell them that." Obviously I would say that I would try to get the Canadian requirements into our plant if we possibly could. That would be the logical thing.

Mr. ISNOR: In fact you state that, as follows:—

As soon as you will indicate your intentions, I shall return to Canada and review the matter with our minister of defence

By Mr. MacNeil:

Q. Do you suggest you had no authority to enter into a conversation of that nature?—A. None whatever. As I said, the entire situation in Canada when I left was absolutely undecided as to what their policy would be. I was given that very distinctly, and I had hoped that if it was private manufacture, we obviously might have an opportunity.

Mr. FACTOR: This letter corroborates that, because it crystallizes his proposition. It states:—

. . . . I would suggest your co-operation as follows:—

(i) To place an order of 5,000 or more guns with the plant to enable economical production.

(ii) Financial co-operation covering the special tools and machinery previously indicated.

Mr. GREEN: Yes, but then read on at the bottom of the page:—

Under such an arrangement guns sold to the Canadian government would carry their proper pro rata preparation cost. There are other obvious details which can be dealt with once the general basis has been found acceptable.

By Mr. MacNeil:

Q. I do not want to take up time in argument with respect to this whole exhibit (103), but is it not fair to say that at that time you were negotiating with Sir Harold Brown with very definite anticipation that you might obtain a

[Major J. E. Hahn.]

Canadian complementary contract?—A. There are two reasons why that would not be so. In the first place when I went to England I had no fixed idea what the situation was with regard to Bren guns, they might just as well have had their secondary sources, so far as I knew at that time. I did not know until later what they intended to do. When I found that they were just considering a second source, it happened to coincide, it was very convenient for me. That is exactly what it amounted to.

Q. Is it not evident from the last part of that letter which was read that that is what you had in mind?—A. I did not know at that time whether Canada would manufacture her own or whether it would go out to private contractors, but when I got to England and saw that England was interested and said so in the possibility of producing here, well it was perfectly logical that I would try to interest Canada, bringing back that definite statement from the war office, and I had hopes of obtaining that business and of obtaining with it a Canadian order. At that time it was still just a hope and just a possibility.

Mr. MACINNIS: Well, a very strong hope, in this particular letter—you state—this is on page 26 of the Royal Commission report:—

I am sure we can provide you with an effective unit in an intelligently and well conducted plan—

I do not know if that should be plant?—A. That should be “plant.”

Q. I thought so.

As soon as you will indicate your intention, I shall return to Canada and review the matter with our Minister of Defence and carry the matter through to finality as quickly as possible.

That is quite definite.

By Mr. MacNeil:

Q. You intimated there was a plan then?—A. No, no; not a plan, that should be “plant.”

Mr. FACTOR: How could you possibly have made a remark like that, that it was a strong hope?

Mr. MACINNIS: I am taking his own letter, he indicates that it is a strong hope—I am returning to Canada and will have the matter up with the minister of defence, I shall carry the matter through to finality as quickly as possible.

Mr. MACNEIL: There was some interpretation you had in mind?

The WITNESS: Yes, I mean, obviously, here was Great Britain right in the act of considering a second source and the thing would have to be carried through to finality if we were to have any interest in it. That is what I had to do. That was my hope. As it turned out it did not work out that fast.

By Mr. MacNeil:

Q. Might I ask if you discussed before leaving Canada the requirements of the Canadian forces with regard to the Enfield rifle?—A. No, I did not.

Q. Didn't you discuss the question of the manufacture of Enfield rifles at any stage with Sir Harold Brown?—A. No. I did this; when I went to the Enfield plant the Enfield plant was manufacturing machine guns and certain portions of rifles; and it was obvious again to me as a manufacturer that that plant—if we were setting one up—quite obviously being a small arms plant it would be stupid to set up a plant to make machine guns if it could be arranged at the same time without any further costs to make small arms, and that it was a logical thing, that was very obvious to me when I went through the Enfield plant.

Q. Was there a proposal to Sir Harold Brown with regard to the manufacture of Enfield rifles in Canada?—A. Not a proposal to manufacture in Canada. Mr. Robinson the superintendent of the Enfield plant and I discussed the matter of small arms and he told me that that is the way their plant was set up; as a matter of fact, for the manufacture—when they laid it out they always had in their minds obviously to make all kinds of small arms in the plant, because any factory that can make rifles cannot necessarily make machine guns, but a factory that is laid out to make machine guns if properly laid out should be capable of producing rifles and pistols.

Q. There is another point there just at this stage before Mr. Green goes on to the next phase of his examination. You referred to the submissions you made to the war office with regard to your financial ability to execute the contract. Was that based on the appraisal made in 1929 of the John Inglis Company plant?—A. No, the war office, Mr. MacNeil, were not much interested in our plant, they were interested mainly in whether or not I was capable of organizing and carrying out this job.

Q. What information did you give them with regard to the standing at that time of the corporation, the financial condition of the corporation?—A. I did this, I gave them references and suggested that they make their own investigations. I told them that we were in process of organizing the plant; and as I say, to my definite knowledge actually while I was in England the first trip, they made this investigation in Canada.

Q. Did you disclose to the war office the limited financial commitments up to that date?—A. No, not at all. I told them that we were in a position to carry out anything we undertook; which is the case.

Q. Were you an officer at that time, a director or officer, of the John Inglis Company, the new John Inglis Company of Canada in Toronto?—A. No, it was—we had just organized one of the two, the Anglo-Canadian Engineering—one of the companies that was ultimately—when we got the name.

By Mr. Factor:

Q. You agreed to subscribe the appropriate amount of shares of that first company, the Anglo-Canadian?—A. Yes.

By Mr. MacNeil:

Q. Of which company were you the accredited representative at the time, the date of the interview with Sir Harold Brown when you submitted this concrete proposal?—A. I was representing this company in the process of being formulated.

Q. Were you a director or an officer at that time?—A. I could not definitely tell you that. I was representing nothing any more than that I was simply representing the plant for which we had paid, the company that was being formulated and set up.

Q. How then could you at that stage assure Sir Harold Brown that you were able to carry through a contract of that nature, you did not represent any particular company?—A. I did so, very much so. I was the controlling owner of the group that had bought the assets of the John Inglis Company which we were turning into the operating concern. I had that plant. There is no question about the plant. We had the plant.

Q. Incorporation had not been completed. There was no legal entity in existence at that time?—A. I can tell you this, there was that Anglo-Canadian company.

Q. If it was the Anglo-Canadian Engineering Company were you listed as a director of that company?—A. I cannot even tell you that. All I know is I was a party to a contract whereby I agreed to purchase and pay up certain

monies to buy the assets of a company that became the John Inglis Company Limited buying specific assets of the John Inglis Company, which we subsequently got. We had purchased the plant.

Q. Might it not be held with some justification then that you were a representative of the old John Inglis Company started at appraisal of approximately a million and a half dollars?—A. Of the old John Inglis Company?

Q. Yes?—A. No, not at all, because it was known to the defence department here, it was known to the war office, that we had purchased the assets of this company which had been in receivership; and I can assure you that the war office very thoroughly investigated the whole thing here and knew every phase of what was going on. I knew every phase of what was going on.

Q. May I ask through what agency they made that investigation?—A. I would prefer not to disclose that unless you press it. But I am willing to make that statement under oath. I know that they investigated through certain sources here in Canada in connection with myself and in connection with John Inglis Co.

Q. May I ask this question: Was it through sources independent of the Canadian government?—A. Oh, yes; they were all independent of the Canadian government.

Q. And they made direct investigation?—A. Yes.

Q. Independent of the Canadian government?—A. Yes, through their local people here. They made the ordinary commercial investigation that any business firm would make in an investigation. I arrived over there. They did not know me. They had this letter, but it is just ordinary common sense; if someone comes in to see me with a letter of introduction I make my own investigation; and that is what they did.

Q. Was the circular prepared by the investment brokers with reference to the affairs of the John Inglis Co. placed in the hands of the officials of the war office at that time?—A. Which circular are you referring to?

Q. Kippen & Company?—A. Oh, no. That was not got out by Cameron, Pointon and Merritt until August, 1938, I believe.

By Mr. Green:

Q. Major Hahn, dealing with the question of your being taken into the Enfield plant, will you look at exhibit 102 which is a letter from the war office dated November 11, 1936, addressed to the High Commissioner of Canada. That apparently was the final authority that was given for you to obtain all this information, was it not?—A. Apparently, yes.

Q. It reads:—

With reference to your letter of the 11th instant, I am commanded by the Army Council to confirm that arrangements have been made for Major J. E. Hahn, D.S.O., M.C., as representative of the government of Canada, to visit the Royal Small Arms Factory, Enfield Lock, Middlesex, where he will be afforded facilities for examining the methods of production of Bren machine guns.

I am to add that the council hopes to be able to furnish, at an early date, the information requested in your letters No. A3/36 of 6th and 9th instant.

Then as soon as you came back to Canada you made a lengthy report to the Deputy Minister of National Defence, did you not?—A. That is correct, yes.

Q. Dealing with the whole situation, including the old Ross rifle machinery at Valcartier and the whole set up?—A. That is correct. I do not know whether

the Ross rifle machinery is in that report. It may have been. I do not remember. I remember I made a very complete report on my Enfield inspection, giving the estimated cost of the materials and the different data on the machinery required.

Q. How did you find out about the Ross rifle machinery?

Mr. FACTOR: He has just said he did not know whether it was included.

By Mr. Green:

Q. If you will look at exhibit 103, you will see the index to your report of December 5, 1936, and you will find under schedule B, "Machinery required under proposal 2, memo *re* machinery, memo *re* Ross rifle machinery, list of machines, Ross rifle machinery, Bren machine guns, photostats of machinery," and so on.—A. Well, the Ross rifle machinery was probably discussed when I came back from England. I was told—again I do not remember the details of that, but I was probably told they had that equipment and I asked for a list of it and they gave me that list. I remember asking for a list of that equipment and was given that list, and I remember we computed the amount of equipment that that would save if it were used.

Q. You were working in the greatest detail with the Deputy Minister of National Defence on this project upon your return from Great Britain in December, 1936?—A. Let me put it this way: I am used to working in more or less detail on anything I undertake; so if I went into this thing at all I would probably want to know everything that was available, and I would ask for it, and I got it. I do not remember when this Ross rifle equipment question was raised. It must have been raised at some time before this report went in.

Q. That was information that you could not get at Enfield, could you?—A. No; that was obtained here.

Q. You could only get that information in Canada through the Department of National Defence?—A. That is correct.

Q. And apparently you had all that information by December 5, 1936?—A. Yes.

Q. When did you return from England?—A. I returned the end of November; I do not remember exactly; the end of November, 1936.

By Mr. McGeer:

Q. You gave to the department here all the information that you got in Enfield?—A. That is correct.

Q. And your report gave to the department all the information that you had which would be valuable should the department decide to establish a plant for the manufacture of Bren guns as a national arsenal?—A. That is correct. That was the statement I made before I left and that was apparently the purpose of the report; there was the information on the gun and it was handed to the department.

By Mr. Green:

Q. But you were naturally doing your best as a private manufacturer?—A. Absolutely.

By Mr. McGeer:

Q. May I be allowed to complete the question? If the department had proceeded to use your information and set up a national arsenal, there would have been no benefit to you in that. The department was free to do that on your report?—A. Absolutely, yes; they were under no obligation to us whatever. I was glad to hand it to them to use in any way they thought fit.

[Major J. E. Hahn.]

By Mr. Green:

Q. Which attitude did General LaFleche take when you submitted this proposal to him? Was he in favour of the private manufacture of the guns or government manufacture?—A. I would say he was interested in the possibility that was presented; and again at that time the situation was not crystallized. It was not clear. The Canadian situation at that time was not clear for one very particular reason, Mr. Green; if you take yourself back to 1936 in Canada, at that time, if you mentioned munitions you were very much frowned upon. There was no interest.

Q. But the report of the Davis commission says that General LaFleche had been recommending to the government that these guns should be manufactured by private enterprise whereas the general staff had been recommending manufacture in government arsenals. Which attitude did General LaFleche take with you?

Mr. McGEER: What portion of that report is that in? I did not read that in the report.

Mr. MacNEIL: The minutes of the defence council.

The WITNESS: May I say I did not discuss—

Mr. McGEER: Where in the Davis report?

Mr. GREEN: Page 10.

The WITNESS: I did not discuss with General LaFleche and I do not think he discussed with me the pros and cons of whether they would be made in a government arsenal as against private manufacture. I simply came back with the situation that had potentialities, immediate potentialities and potentialities of immediate saving, and immediate saving under private manufacture—a saving which for reasons that must be obvious to you would not have been likely to accrue to a government arsenal.

By Mr. Green:

Q. The provision under which Great Britain had the right to manufacture these Bren guns was that they should be manufactured in a government arsenal, was it not? You found that out when you were in England in the fall of 1936?

Mr. MacNEIL: Referring to the agreement between the British government and the patentee.

The WITNESS: You mean the licence?

By Mr. Green:

Q. Yes.—A. There was something in that licence that referred to manufacture in a government plant, I think. I think the licence was so drawn—the original licence.

Q. I beg your pardon?—A. I think the original licence was so drawn.

Q. And it took the deputy minister several months to have that provision altered so that in Canada we could manufacture the guns by private industry?—A. No. It was not quite as complicated as that, because I was present when it happened.

By Mr. MacNeil:

Q. When?—A. That was in June, 1937, when that question arose. As a matter of fact, it was considered that the licence as it stood would permit the government to manufacture under the type of manufacture that we are doing; in other words, where it is really under government control; but to clarify or to avoid any possibility of question the matter was taken up with the Czechoslovakian people and they did not raise any objection, they assented immediately.

Q. You were present when that was negotiated?—A. I was present while that matter was discussed, while the question of the licence was discussed.

Q. In the summer of 1937?—A. In the spring of 1937, yes.

By Mr. Green:

Q. That was in Ottawa?—A. In England.

By Mr. MacNeil:

Q. During the occasion of your visit to England, did you meet the Minister of National Defence?—A. No, I did not meet him at all.

Q. Not on any occasion?—A. No.

By Mr. Green:

Q. Were you not with him on board the Canadian destroyer "Skeena" when the big naval review took place there?—A. No, I do not think so. The deputy minister came on board; the minister was not on board. I think the deputy minister came on board late in the afternoon.

Q. You were on the "Skeena" during that review?—A. What was the other boat?

Mr. MACNEIL: The "Saguenay."

The WITNESS: I know the minister was not on the destroyer that I was on. I do not remember which of the two I was on, as a matter of fact, but the minister was not on the one I was on.

By Mr. MacNeil:

Q. Did you ask for the exclusive licence to manufacture the Bren gun in Canada?—A. In the original draft, yes.

By Mr. Green:

Q. Major, after you came back to Canada in the fall of 1936 and made your report to General LaFleche there was nothing further done until you went to England again in the spring of 1937?—A. With such a statement from the war office and such an indication of interest from the war office I was naturally anxious to get some action on the matter because I knew the thing could not drag indefinitely, and I was given to understand that several cables had been sent to England and no reply received. Nothing, however, transpired in January and February, and by March I was getting quite concerned. I thought we would run the risk of losing that co-operation. And I had other business that took me to England, so I went to England in March with the dual purpose, of course, of consummating the other business that I went over for, but also particularly of seeing what was transpiring in connection with this Bren gun possibility.

Q. There had been nothing done during those three or four months?—A. I understood, you see, that cables had been sent from here.

Q. You found when you got to the war office that there had been no cables sent?—A. Correct.

Q. Was that explained subsequently?—A. If you will notice in the evidence, the cables were, I believe, drafted by the defence department but not dispatched.

By Mr. McGeer:

Q. There are proposed drafts from the Department of External Affairs which the Department of External Affairs did not send?—A. That, I believe, is the case.

[Major J. E. Hahn.]

By Mr. Green:

Q. Would you look at exhibit 134? Go back to exhibit 132. By the way, did you take Mr. Hugh Plaxton to England with you on this occasion also?—A. No.

Q. Apparently in March or April of 1937, you were getting impatient again about no action being taken?—A. I am afraid so, yes.

Q. Who did you communicate with at the department?—A. Before I sailed, you mean?

Q. About the delay. Before you sailed.—A. With Colonel LaFleche.

Q. Is that the letter, exhibit 125, or was there one before that?—A. This does not refer particularly to the Bren gun. We wanted to know what particular armaments they would be interested in, this exhibit 125.

By Mr. MacNeil:

Q. You say you made that trip because of other reasons?—A. Well other reasons were part of the trip but the main reason of going over was obviously to see what was going on in connection with the Bren gun.

Q. Subsequently you charged the expense of that trip?—A. That is why the statement was withdrawn, because I noticed that was charged and I asked for it to be withdrawn.

By Mr. Green:

Q. There is a letter, exhibit 127, from the Minister of National Defence to yourself, and I cannot see any previous letter from yourself to the minister to which this exhibit is a reply. Had you written a letter to Mr. Mackenzie before that or was it a verbal conversation that you had with him?—A. I think that is a result of a conversation with the deputy minister. I was in Ottawa, I imagine, several times between December and March.

Q. But you got this letter of March 31, 1937?—A. That is right.

Q. It says:—

DEAR MAJOR HAHN,—I am pleased to learn that it is your intention to proceed to England, on private business, within the next few days.

I think you should know that it will be extremely difficult to purchase Canadian-made Bren machine guns if only the number required by my department were to be taken into consideration. I understand that in such case the overhead would be out of proportion whereas should it be possible to manufacture a greater number than will be required within the next few years by Canada the unit price would permit manufacture in this country whether by private interests or in a dominion arsenal.

May I wish you a comfortable and successful trip.

Sincerely yours,

I. A. MACKENZIE.

Apparently when you got to England you cabled General LaFleche, as set out in exhibit 128?—A. Yes.

Q. That reads: "Canada House claim cables not received advise." That is correct, is it?—A. That is correct.

Q. Then Hugh Plaxton sent a telegram. How did he come into the picture? He sent a telegram, exhibit 129, April 19, 1937, from New York to General LaFleche:—

Retel received from Hahn quote Canada House have not received any Ottawa cables advise unquote advise Gotham hotel to-day Toronto to-morrow if anything can be done via Canada House to facilitate Hahn's visit.

Had you cabled Hugh Plaxton also?—A. Yes, I probably cabled Hugh Plaxton.

Q. What was the cable to him?—A. I do not know. I probably cabled him the gist of the same thing, that I was there and that no cables had been received.

Q. Asking him to get after the government?—A. To find out why the cables that I understood had been sent had not been sent, or where the misunderstanding was.

Q. Why did you deal through Hugh Plaxton? Why did you not deal directly with the department?

Mr. FACTOR: He did.

The WITNESS: I think I did, as well.

Mr. FACTOR: He sent a cable to Colonel LaFleche, exhibit 127.

By Mr. Green:

Q. Why did you deal with Hugh Plaxton?—A. I would want to get every assistance I could get. If there was anything he could do I would want it done.

Q. You were bringing all the pressure you could?—A. Not pressure, just what assistance I could get.

By Mr. Bercovitch:

Q. Even if Mr. Green had been able to assist you, you would have asked him?—A. I certainly would have.

Mr. McGEER: Hugh Plaxton was the member for the district in which this plant is located. Surely, there is nothing wrong with that.

By Mr. Green:

Q. Then, General LaFleche cabled to you as indicated in Exhibit No. 130:

Am again taking up matter here and will advise as soon as possible.

A. That is correct.

Q. And then (exhibit 131) there is the reply by General LaFleche to Mr. Plaxton?—A. Yes.

Q. This is dated April 20, 1937, and it reads:—

Personal. Just wired Hahn as follows "Am again taking up matter here and will advise as soon as possible."

The CHAIRMAN: It is one o'clock.

By Mr. Green:

Q. Have you seen, did you know of this letter from General LaFleche to the Under-Secretary of State for External Affairs, dated April 20, 1937?—A. No. You see I did not know of it, and I was in England at the time.

Mr. GREEN: I want to continue some things along that line.

Mr. McGEER: There is one exhibit which I think should go in because I think it has a bearing right on this point, and it is a part of exhibit 134, it has a bearing on this question of pressure, and that is Dr. Skelton's letter to General LaFleche in which he says, in part:—

I was informed by the Prime Minister after council yesterday that the question had been considered, but that it was not thought advisable at present to request the government of the United Kingdom to place in Canada munition orders of this type.

Mr. GREEN: I was intending to put that in anyway, Mr. McGeer.

The CHAIRMAN: Is it the wish of the committee to meet again to-day? Major Hahn is still here, and he is very anxious to get finished. I am quite willing to sit any time this afternoon or to-night.

[Major J. E. Hahn.]

Mr. MACINNIS: We all wanted to get through with this witness to-day if we could.

The WITNESS: I would appreciate that very much.

Mr. GREEN: I do not think we can finish with him in any two hours anyway.

Mr. McGEER: I think if he came back possibly one day we could go right ahead and finish with him.

Mr. BROOKS: Might I suggest that when Major Hahn comes back Tuesday he might bring some of the books of the company with him and give us some information regarding the facts of the financial structure of the company and the allotment of shares.

The WITNESS: I shall be very glad to do that.

Mr. BROOKS: And similar general information?

The WITNESS: Yes.

The CHAIRMAN: Then, gentlemen, we will adjourn until Tuesday next.

The committee adjourned at 1.05 o'clock, p.m., to meet again on Tuesday next, May 9, 1939, at 11 o'clock a.m.

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Canadian Public Accounts, Standing Committee

SESSION 1939
HOUSE OF COMMONS

17

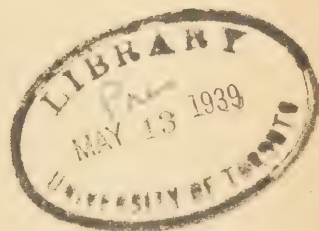
STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 17



TUESDAY, MAY 9, 1939

WITNESS:

Major J. E. Hahn, President, John Inglis Co. Limited

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 9, 1939.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Bercovitch, Blanchette, Brooks, Brown, Factor, Fleming, Fraser, Glen, Golding, Goulet, Green, Isnor, Kennedy, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Needham, Patterson, Purdy, Rickard, Stewart, Stirling, Taylor (*Norfolk*), Tremblay, Wood.

In attendance: Major J. E. Hahn, President, John Inglis Co. Limited, Toronto, Ontario.

Examination of Major Hahn was continued.

At 1 o'clock p.m. the Committee adjourned until 4 p.m. this day.

AFTERNOON SITTING

At 4 o'clock p.m., the Committee resumed, the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Bercovitch, Black (*Chateauguay-Huntingdon*), Blanchette, Bothwell, Brooks, Brown, Factor, Fraser, Golding, Green, Isnor, Kennedy, MacNeil, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Marshall, Patterson, Purdy, Rickard, Stirling, Taylor (*Norfolk*), Thauvette, Turgeon, Wood.

In attendance: Major J. E. Hahn; Lieut. M. P. Jolley, Department of National Defence.

Examination of Major Hahn was concluded.

The Committee adjourned until Thursday, May 11 at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

May 9, 1939.

The Standing Committee on Public Accounts met at 11 a.m. The Chairman, Mr. W. A. FRASER, presided.

The CHAIRMAN: Well, gentlemen, if you will come to order we will begin with Major Hahn who is here this morning.

Major J. E. HAHN, President, John Inglis Co. Limited, recalled:

Mr. GREEN: I meant last time to ask that a correction be made at page 370 of report No. 13. It shows here at the bottom of the page that I made the statement: "We all know the machinery has got to be ripped out." I think that what I said was, "is not to be ripped out." I would like to have that changed.

The CHAIRMAN: Your statement here will correct it on the record now. You brought it up the other day and we have made a note of it here.

Mr. GREEN: I did not speak about it at that time.

The CHAIRMAN: No, but this morning it will be recorded. I think Major Hahn has two or three little points that he would like to have the record corrected on.

The WITNESS: Yes. In report No. 15 at page 450 I stated: "The commercial division, and this is approximately one-quarter of the ordnance"; that should be, "one-quarter of the total business."

Mr. GREEN: Is that near the top of the page?

The WITNESS: Yes, near the top of the page, about a third of the way down.

Then, on page 453 Mr. Bercovitch made the statement: "I want to call to your attention the evidence of Mr. Fraser Elliott on this question of the sale of stock, at page 201 of the evidence taken before this committee. It reads as follows;" and then there was an interruption but it went ultimately to that statement. I was not familiar with the details, I did not know just where that statement was located, so I looked it up, and I would like to put this on the record in connection with that. I would like to refer to the evidence taken by the commission, page 959 of the examination of Mr. Drew:—

Mr. DREW: That section obviously has no relation whatever to the 220,000 shares you have mentioned?

The COMMISSIONER: Of course it is subject to argument, but it is perfectly plain that that clause refers to the issue by the company and sale by the company.

Then on page 961 of the evidence before the commission, the evidence of Mr. Fraser Elliott:—

By the Commissioner:

Q. Whatever your thoughts were that night, they must be plain to you now that that clause does not affect or attempt to affect the sale of the then issued 220,000 shares?

C. F. ELLIOTT:

A. Not the 220,000, no, but it would affect, I think a split of them and issuing three for one or something like that. That is perhaps a question of interpretation.

Mr. FORSYTH: As a matter of fact I do not know that I would agree with you, Mr. Commissioner, or with the witness on that. I think it is a subject for later argument.

The COMMISSIONER: I think it is as plain as day. I do not think there is any use splitting hairs as to what it says.

Mr. FORSYTH: If we are going to split hairs, I suppose we can split them later.

The COMMISSIONER: That is perfectly plain. Any lawyer could read that clause and see what it means.

Then, Mr. Geoffrion at page 4471:—

Mr. GEOFFRION: The selling of shares is the third point, and on the selling of shares again the answer is this: the clause of the contract is clearly not violated.

The COMMISSIONER: It plainly does not affect it.

Mr. GEOFFRION: In other words the fact that Mr. Cameron saw fit to sell his shares is no breach of the covenant.

The COMMISSIONER: No, I think not.

Then, on pages 4376 and 4377:

By Mr. Ralston (Government Counsel):

One can hardly conceive of the National Steel Car Company or the Steel Company of Canada or the Canadian Car and Foundry Company or any other of those companies submitting to a clause of that kind simply because they have a contract for armaments. No suggestion has been made in any of the contracts which have been filed or in any contracts which have been made that such a limitation could be imposed. Whether it can be imposed legally is, I would think probably a very grave question, unless it is made to apply solely to an individual.

—Obviously, of course, I would suggest that the clause does not apply to the sale of shares which were mentioned in the article, which is a sale of shares, as I understand it, shares which had actually been paid and bought for. I mean, shares paid and bought for in cash at \$6 a share and which were sold at \$7.50 a share.

Then, going back again to Mr. Elliott's evidence, that you referred to, Mr. Berecovitch, at page 225, he states:—

We have touched this morning upon one set of circumstances that happened, namely, a shareholder did in fact sell his shares. Now, did that amount to breach of the contract? The honourable Mr. Justice Davis says no. I agree with that.

I just wanted to place that on the record because the quotation from Mr. Elliott's evidence became somewhat detached with respect to this last statement.

By Mr. Brooks:

Q. Your opinion then is that these shares were issued before the contract—
A. Absolutely. That is, we would never have agreed to any restriction which would have simply tied our person shares for the period of a contract. I do not think any company could be expected to do so. We were quite willing.

Q. And that applies to the vendors' shares as well as to the treasury shares?—A. Yes, and the shares of the company were issued at the time; they were either committed for or issued at the time of the contract.

Then on page 456 I stated:—

"We could make the gun at approximately the man hours used."

The word put in was "method"; "man hours" is what I used. You see, "method" there would not convey any sense.

[Major J. E. Hahn.]

By Mr. Green:

Q. How far down the page is that?—A. It is the last sentence on that page, 456.

The WITNESS: On page 462, (line 11) I said, "I knew that a shell contract was being placed by England in Canada"; not "by England and Canada"; "by England in Canada." It is the third last sentence of the first long paragraph.

And on page 466 in the centre of the page, in that long paragraph in the centre of the page, the fifth line from the bottom, I stated: "As a matter of fact our plate shop," not our "complete shop"; "our plate shop."

And the last line at page 469 in the centre of the page, the third last sentence in the last paragraph there, "It is obvious that equipment has no use whatever," I said, "except for a commercial job." That should be deleted; it was not for a commercial job, referring to the rifle machinery, to the gun machinery.

By Mr. Brooks:

Q. Major Hahn, you told us the other day, I think, you are the president of the John Inglis Company Limited?—A. That is correct.

Q. And you have been interested in the negotiations of taking over this plant and the John Inglis Company since October of 1936?—A. That is correct, yes.

Q. I think you also told us that Mr. Nurse, an employee of the brokerage firm of Cameron, Pointon and Merritt was acting for you and your group when he agreed to take over this plant in 1936?—A. That is correct.

Q. And under Nurse's agreement there were certain payments to be made in taking over the plant in October, October 19, 1936, certain payments were to be made I think up until March 31, 1938, you said, that \$46,500 had been paid; is that correct?—A. The sum of money was thereabouts. What you indicate had been paid on the actual purchase price of the plant, and altogether we had paid approximately \$160,000 including money towards the purchase price of the plant and the provision of working capital for the plant, and further payments towards the purchase price.

Q. Yes. Well, we will just deal with the purchase price first?—A. Yes.

Q. \$46,500 was the amount paid on the purchase price up to that time. Now, this \$46,000 in the evidence which was brought out on the books of Cameron, Pointon and Merritt, those books credited you with the payment of \$28,416.86; that would be correct, would it?—A. I haven't the records before me, but if that is what is there I presume it is.

Q. And Gordon Plaxton with \$3,668.67, and Howard Plaxton with \$3,616.67, and the firm of Cameron, Pointon and Merritt with \$10,850. Now, this \$46,000 later became a charge, did it not, against the treasury stock of the John Inglis Company?—A. I believe so, yes.

Q. And shares were issued to you and your associates from the John Inglis Company to the extent of this amount for the payments you had made?—A. I presume so, yes.

Q. Well, you know that?—A. I say I presume so because I am not—

Q. In other words, you received payment, Major Hahn, in shares of the John Inglis Company for the money that you had previously advanced to purchase the John Inglis plant?—A. I would think so, yes.

Q. Oh well, you know so?—A. I don't want to quibble on that, but I will ask you to leave the legalities out. If you want to go into that in detail I prefer you would have the Plaxtons here, if you wish to do so. They could answer these questions better than I could.

Q. You are the president of the company, and this is just a matter of fact, Major Hahn; it is not a question of law at all.

Mr. BERCOVITCH: The formalities of it were performed by lawyers retained by him.

Mr. GREEN: That is not a formality, it is a very substantial fact.

Mr. BERCOVITCH: It is formality when it comes to the organization of a company and the allocation of stock. That is the work of lawyers. It is a formality to that extent. Now, you as a lawyer have no doubt done the same thing many many times.

Mr. BROOKS: I am not questioning Major Hahn on the formalities, I am asking if it is not a fact that he received shares for money paid.

The WITNESS: Yes, for all the money we paid we received shares. That is correct.

Mr. BERCOVITCH: There were a great many formalities connected with that, and those formalities in most cases are regular Chinese puzzles. I may say, that I consider the last part of your question a very proper one.

Mr. BROOKS: The point I was making was that Cameron, Pointon and Merritt—the money originally paid out of that fund, was it charged against the treasury of the John Inglis Company later on and shares issued to Major Hahn and his group for the amount which they had paid or advanced?

By Mr. Brooks:

Q. Now, the capital stock of the John Inglis Company, I understand, Major Hahn, is \$250,000; is that correct?—A. Correct, yes.

Q. At a par value of \$6 per share?—A. \$6 per share.

Q. Some of it has been sold for a higher price, I understand?—A. I believe some has been sold between \$6 and \$7.50 a share by Cameron, Pointon and Merritt.

Q. Now, of the capital stock of 250,000 shares, is it correct to say, Major Hahn, that you and your group took for yourselves 191,262 of these shares, called vendor's shares?—A. I believe that is correct, yes.

Q. That was through the operation of one of these companies, one of these subsidiary companies, that you got these shares?—A. Well, that is—again, I know we got them. As to how, I personally could not give you the detail of that, because I do not know.

Q. I would like to refer you to exhibit No. 293. We have the British-Canadian Engineering Limited and the John Inglis Company Limited. Extracts from the minutes of June 1, 1937, at which meeting you submitted a draft agreement bearing date of June 1, 1937, expressed as being between Nurse as vendor of this company, and the purchaser, providing for the sale of this company to the John Inglis Company Limited—"mortgaged and pledged under a certain mortgage and deed of trust dated as of the 1st day of April, 1932, between the John Inglis Company Limited, of the first part, and the Toronto General Trust Corporation, as trustee, of the second part. The said mortgage and premises are referred and described in this agreement as the 'Inglis property.' And the price to be paid for the 'Inglis property' was to be \$1,400,030, to be paid and satisfied as to the thirty dollars (\$30) in cash at the date thereof; as to the one million one hundred and forty-nine thousand nine hundred and seventy-two dollars (\$1,149,972) by the issue and allotment to the said Nurse or his nominees in writing named of one hundred and ninety-one thousand six hundred and sixty-two (191,662) common shares of the capital stock of the company at par value of \$6 each, to be issued fully paid and non-assessable, before the 8th day of February, 1938." To the said Nurse or his nominees; his nominees, Major Hahn, were yourself and Mr. Cameron, representing Cameron, Pointon and Merritt and the Plaxtons?—A. I presume so. Again, I am sorry that I appear to be answering this particular question with a certain amount of doubt, but I do like to answer anything clearly and without equivocation if I know just what I am talking about; and, as I say, if you want to go into the legal phrases of this or that angle that has any legal implications—

[Major J. E. Hahn.]

Q. This has no legal implication, this is a matter of fact?—A. It may be fact, but I am not very familiar with the legalities.

By Mr. Golding:

Q. The fact of the matter is that you were depending on these legal men to carry on that phase of the operations?—A. Absolutely. I know what we started out to do, I know what we tried to do, and I know where we finished. If you ask me that I can tell you that clearly, but if you ask me about all these legalities, I am not clear on them.

By Mr. Brooks:

Q. You knew about Merritts representing you as one of the nominees?—A. I did, yes.

Q. And you also know that you stated before that 191,662 of these common shares came to you and your associates?—A. Yes, that is correct.

Q. And the value of \$1,049,972 at a par value of \$6 a share; that is correct, is it not?—A. That is correct.

Q. Major Hahn, this agreement was between Nurse—Exhibit 293; the memorandum of agreement refers to the agreement on the 1st day of June, 1937, between Stanley Nurse of the city of Toronto in the province of Ontario of the first part, and the British Canadian Engineering Limited, a company incorporated under the Companies Act of Ontario, hereinafter called the purchaser, of the second part. Now, that Stanley Nurse again was representing you and your associates?—A. Again I would say I imagine so, I presume so.

Q. Yes. The British Canadian Engineering Limited was also a company representing you and your associates, Major Hahn?—A. That is correct, yes.

Q. This really is an agreement between yourself of the first part and yourself of the second part; that is, stripped of its legal formalities?—A. Well, again, the legal details are with the lawyers and I would prefer you to examine them. They know what they are doing.

Q. Well, we have the statement, and of course we know it is a fact that Nurse was representing your group, and we know it as a fact that the British-Canadian Limited was a company representing your group and no others; is that not correct, Major Hahn?—A. I would think that is a statement of fact, yes.

Mr. BERCOVITCH: They are two separate entities.

The WITNESS: As I was saying, I do not know the legalities of it.

Mr. BROOKS: They represented the same people

Mr. BERCOVITCH: Two separate entities.

Mr. BROOKS: Call it that if you wish.

Mr. BERCOVITCH: That is the way it is done legally.

Mr. BROOKS: You have two separate pockets, one on this side and one on the other side of your trousers; you take it out of one of them and put it into the other. That is the same sort of thing we have here.

Mr. BERCOVITCH: But I have money in one and I haven't in the other.

Mr. GREEN: In this case they did it in fact.

Mr. BROOKS: In this case they did it anyway, they took it out of one pocket and put it into another.

Mr. BERCOVITCH: But it is the same money.

Mr. BROOKS: It is the same money, yes. Just exactly, and that is my point.

Mr. BERCOVITCH: Then he is getting no more, he is transferring it from one pocket to the other.

Mr. BROOKS: Not at all.

In paragraph 2 it says:—

The consideration to be paid to the vendor by the purchaser for the "Inglis property" above described and referred to shall be the price or sum of one million four hundred thousand and thirty dollars (\$1,400,030) to be paid and satisfied as to thirty dollars (\$30) in cash at the date hereof; as to one million one hundred and forty-nine thousand, nine hundred and seventy-two dollars (\$1,149,972) by the issue and allotment to the said Nurse or his nominees in writing named of one hundred and ninety-one thousand six hundred and sixty-two (191,662) common shares of the capital stock of the company of the par value of six dollars (\$6) each, to be issued duly paid and non-assessable on or before the 8th day of February, 1938; as to one hundred and fifty thousand dollars (\$150,000) by the assumption or granting of a first mortgage and deed of trust securing bonds in the principal sum of one hundred and fifty thousand dollars (\$150,000) bearing interest at the rate of six per cent,

and so on.

By Mr. Brooks:

Q. Now, Major Hahn, for this 191,662 shares you and your associates would make no cash payment?—A. I would not like to answer that, Mr. Brooks; I do not know.

Q. Oh well, you know whether you did or not?—A. No. Now, just one moment. I mean, I am not going to make a statement that is not a fact, I mean—are you a lawyer, Mr. Brooks? I mean, I am just asking you that?

Mr. BROOKS: Well, I practise law.

Mr. BERCOVITCH: He is a member of the bar.

The WITNESS: You see, I am not; and I think it would be fairer to me if you would examine our lawyers on this thing.

By Mr. Brooks:

Q. I am not asking you legal questions, I am simply asking you as a matter of fact did you or did you not pay any actual cash for these shares?—A. I will answer that in this way, to my knowledge we paid very substantial cash for those shares.

Q. For the vendor's shares?—A. Just wait a minute and I will explain it in my own way; again, as to the legalities of it I would prefer to have you ask the proper people; but I know that we put money up to buy the assets of the old John Inglis Company and to provide working capital for that company.

Q. Yes?—A. But as to how much, that would depend on the amount ultimately required; you may as well put it this way, we have had to pay money directly or indirectly for those shares, I would imagine; we had a firm agreement to buy the assets and to provide working capital, so I would imagine those shares have cost us something somewhere.

Q. As a matter of fact, Major Hahn, you paid for the treasury shares which were given you later—58,000 shares, called treasury shares—you obligated yourself to pay \$6 a share for those?—A. Wasn't it all part and parcel of the same transaction?

Q. No, no?—A. I mean, what is the difference? We put up \$350,000 cash, and we bought the assets of the John Inglis Company; that is what I knew we were doing and that is what we did. We had to raise \$350,000 as a result of it, as far as I know. It was my understanding that if we did that

[Major J. E. Hahn.]

we owned the John Inglis Company. We had a mortgage of \$150,000, and we were to put up \$200,000 of working capital. That was my understanding of the transaction.

Q. You had \$250,000 cash payment and \$150,000 mortgage, you say?—A. No.

Q. Which would be— —A. No, \$350,000.

Q. \$350,000?—A. Yes. We committed ourselves for \$350,000 cash.

Q. You were obligated to the extent of \$500,000?—A. That would be the mortgage and the cash.

Q. In that you also state that you receive shares to the value of \$1,400,000; that is only 191,000. That accounts for 191,662 of the shares. You still have 58,000 of the shares which are not accounted for at all. That is correct, is it not?—A. That is correct.

Q. In this agreement, Major Hahn, which as you say you have not studied very carefully, I will defy you or anyone else to find where you have paid one dollar for these 191,662 shares—A. I still do not see what difference it makes. We committed ourselves to put up cash and mortgage money to the tune of half a million dollars; at the end of that we owned the company.

Q. The only difference is that we want to get the facts.—A. Those are the facts as I know them.

Q. I admit that you did pay that amount of money, but you did not pay it for these shares here that we are speaking of and it cannot be found anywhere in the agreement that you did. Later on you did purchase 58,000 shares for which you paid \$6 and contributed to the fund through the sale of those shares \$367,000, I think was the amount.—A. \$350,000.

Q. Well, it was in that vicinity?—A. Yes.

Q. You and your associates?—A. That is right.

Q. You were speaking of your associates?—A. As well, yes.

Q. As well?—A. Yes.

Q. Speaking of the British Canadian Engineering Company—and you say you wish we would discuss that with a lawyer—its function evidently was to take over the old Inglis plant and recapitalize it. That is what you would understand from reading the particulars of this agreement. Or have you read it?—A. I have not read it since—no, I should not say since it was drafted, when it was drawn; I read it some time during the commission; but I have not read it since. It was simply part of the mechanics of setting up our company, getting it going, so far as I know.

Q. On page 2607 of the evidence we come to the 58,333 shares. That is, there were 250,000. 191,662 were accounted for in the British Engineering Company. That left 58,333 shares. These were known as treasury shares, were they not?—A. That is correct.

Q. And another company, the Anglo-Engineering Company, was formed. The incorporators of that company were Winnifred May Woodburn, Lillian Maria McCartney, Kathleen Robinson, Florence Marjory Campbell and John Steele Wright. Are you acquainted with those people?—A. I believe they are stenographers or clerks in the office of Plaxton & Company.

Q. Those are the same incorporators as those in the British Canadian Engineering Company, Limited?—A. Yes.

Q. They are also appointed provisional directors, I think?—A. Yes. That is the usual method, I understand, of incorporating any company. You have provisional directors and later you replace them.

Q. The amount then to be paid for the 58,333 treasury shares was \$6 a share?—A. That is correct.

Q. Has this total amount been paid yet, Major Hahn?—A. Of the—

Q. Of the treasury shares?—A. I am just checking that up.

Q. All right.—A. They have all been taken up with the exception of 2,584 shares which are not due until December of this year.

Q. Your records show that all your associates paid for these treasury shares?—A. That is correct.

Q. Your records do not show that you paid anything for those other shares?

—A. Well, again—

Q. Well now, Major Hahn—

Mr. BERCOVITCH: Let him answer, at least.

By Mr. Brooks:

Q. You have a record of one and why not a record of the other, if anything was paid?—A. I would ask you, if you want the proper answer to that, to have Mr. Plaxton here who can probably give it to you.

Q. Why is it you can give a proper answer as to the 58,000—58,333—and you cannot give the proper answer to the 191,000?—A. I can give you a very proper answer as to the 191,000, but not in terms of legal mechanics. The proper answer to the 191,000 shares is this: We bought a plant for which we paid \$250,000, a plant which to any one who has been through it at all is obviously worth many times what we paid for it. Again that is a question of fact. I do not think there will be any disagreement about that.

Q. Well, there may be a question there.—A. Well, I think any fair-minded person, with any idea of values at all, can tell the minute he walks into the plant that \$250,000 and the replacement value of the plant are totally different things; and also every record we have shows that. We were setting up that plant. We bought it. We risked our money to buy it at a time when no one else would buy it.

Mr. GREEN: You did not risk very much until after you got the contract.

Mr. BERCOVITCH: Let him get through. Go on, Major Hahn.

The WITNESS: We committed ourselves in a firm commitment for \$350,000 cash—which in any language and in any country is a lot of money—to put into an industry and open up an industry. It is perfectly logical that, when we bought that or after we bought those assets, when we made those assets or restored those assets to their proper physical value, those of us who put up that original money were the only ones who were entitled to the proper appreciation and the proper restoration of the physical assets. Devoid of the legal technicalities, that is what I do know. How they accomplished it—that is, apparently, the way they accomplished it.

By Mr. Brooks:

Q. You developed assets \$500,000 to one and a half million?—A. We believe that the plant, plus the cash working capital is worth one and a half million dollars in anybody's money as a growing concern.

By Mr. Green:

Q. You and your associates actually have shares to the value of one and a half million dollars?—A. That is what we believe. We set the thing up not with any idea of watering anything. We did not capitalize the contract for a dollar. What I told Plaxton to do was this. I figured out what I thought the plant itself was worth; and on the figures I had, and on my own common sense—I knew what the buildings were worth. I did not need any more appraisals. I had built buildings, I had built houses, and I knew how much a building is worth or pretty close to it—what a house is worth or a certain type of factory construction is worth. That is all a matter of record. I also knew what the machinery was worth. We had insurance. Even the receiver was carrying one and a quarter million insurance on the plant. We had what we were paying taxes on in the city, on the buildings and the land alone. All these were very clear indications. We knew that the old company

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had paid nearly two million dollars for this property and machinery; so we felt that what we paid for it was absolutely no relation whatever to what it was worth as a going concern. A big enterprise unless it is a going concern is not worth anything; it is not worth anything closed down. It is worth a lot of money operating.

Q. When you bought it in October, 1936, it was a closed down concern?—A. It was a closed down plant, yes.

Q. Business had been going down. The John Inglis Co., a very prominent business concern in the past, had been losing business for a period of years and went into bankruptcy in 1936.—A. Well, the facts are that they only lost money for three years, I think. They only lost money the last three years before they closed.

Q. I think in the court order, exhibit 5 (b), part of exhibit 288—

Mr. GOLDING: There was hardly an industry operating in that line of business that did not lose money during those same years.

Mr. BROOKS: No one is questioning that.

Mr. GOLDING: Not an industry.

Mr. BROOKS: On page 2 of exhibit 288 we find: the court doth declare that such sale for the consideration “—that is, the consideration of \$100,000 in cash and \$150,000 bonds on the mortgage—and upon the terms set forth in said offer is fair and reasonable having regard to the interests of all parties.” That is, the court at that time, considered \$250,000 a fair and reasonable price for the plant.

Mr. BERCOVITCH: When it was closed down.

Mr. BROOKS: It was closed down.

Mr. BERCOVITCH: That is right. It was not a going concern at that time.

By Mr. Green:

Q. It was not a going concern until April of 1938, after the Bren contract?—A. It was a going concern—it was on the way of being a going concern from the minute I got in it and said I would put the money in.

Q. You did not go very far until the Bren contract?—A. It has gone very far since 1936 until to-day, in spite of the obstructions we have had.

An Hon. MEMBER: Considering it was a broken down boiler plant.

By Mr. Brown:

Q. How much commercial business has been done since the purchase of the plant?—A. We took very nearly \$150,000 commercial business the first year we opened it up.

By Mr. Green:

Q. You opened it on the first of April, 1938?—A. Just a year ago, yes.

By Mr. Brown:

Q. Would that be sufficient to carry along a plant of that size, without the Bren contract?—A. Well, it certainly is not. Would you expect us opening up a plant to reach a million dollar a year average at the plant?

Q. I am just asking.—A. No. That is ordinary common sense. If we want to open the plant up, we expect to lose money the first year on commercial operations.

Q. How much capital did you expect, apart from the purchase price of the plant? How much capital did you think would be necessary to carry the plant through the first year?

Mr. GOLDING: He had a budget for that.

The WITNESS: Yes, we have a budget for that; on the commercial business, \$100,000.

By Mr. Brown:

Q. When you bought the plant you must have decided between you how much money it would take to carry the plant in the first year. You must have had some idea or you would not have gone into the business?—A. We had a very definite idea.

Q. How much was that?—A. \$200,000 was the cash that we would have normally put up for commercial operations alone instead of \$350,000.

Q. That is apart from the purchase of the plant?—A. No, that is including the purchase of the plant.

Q. That is what I mean; I mean apart from the purchase of the plant?—A.—That would be \$100,000.

Q. \$100,000?—A. Yes.

Q. That you decided you would need as going capital?—A. That is right.

By Mr. Green:

Q. Major Hahn, the position apparently is that you paid from \$40,000 odd before the signing of the Bren gun contract—you and your associates—out of the \$100,000 cash which was payable under the contract; is that correct?—A. Towards the payment of the building, yes.

Q. Well, the building and the equipment. The whole Inglis plant you purchased for \$250,000, of which \$150,000 was to be payable in the shape of a mortgage?—A. That is right.

Q. And \$100,000 was to be payable in cash?—A. That is right.

Q. As I understand it, you and your associates were never bound under any such mortgage, but the company, on the 1st of April, 1938, the day after the Bren gun contract was signed, entered into a mortgage for this \$150,000; and that obligation became thereby a company obligation. Is that not right?—A. I do not know that. That may be right, as the dates you mention. But I think you should also say—when you say we only paid \$43,000 towards the payment on the plant, you should also add that we paid that because no more was due at that time; we paid the balance, the \$57,000 or whatever it was, when it became due. It had no relation whatever to the Bren gun contract.

Q. I will not take the time to look up the records now. I understand the payments were in arrears at that time and you got an extension—A. No.

Q.—from the General Trust Corporation who were selling the plant.—A. There were no arrears at all. There were no arrears in any of the payments. We bought the plant along similar lines to what we knew of a previous deal—a previous deal had existed along similar lines—with the purchase based on a long period of two years or so.

Q. For the \$40,000 odd which you paid you got shares in the Inglis company at \$6 a share?—A. That is right.

Q. And the balance of \$100,000, the cash part of the purchase price, was taken over by the new company, was it not?—A. Yes.

Q. The obligation to pay that was taken out of your hands, taken away from Nurse, and taken over by the company?—A. I would imagine so. We paid the money. That is all I can say.

Q. Then you and your associates put up certain working capital?—A. We put that up long before that. We put that up in November, 1937. We committed ourselves for that and put that up as a commitment.

Q. But the total amount put up or for which you were committed is not \$500,000 but is \$350,000?—A. We committed ourselves, as I said before, for \$350,000 firm commitment.

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Q. The other \$150,000 represents this mortgage which has been put up by the new company?—A. Well, it is a mortgage that was taken back by one of the parties originally interested in the old John Inglis Company.

Q. Yes, but the only party liable under that mortgage is the John Inglis Co.—A. I do not know, Mr. Green.

Q. I do not think that could be disputed.—A. I do not know. You may be perfectly right. I do not know.

Q. For this \$350,000 which has been put up or the total that has been put up or committed for, you and your associates hold shares now of a par value and incidentally a market value of one and a half million dollars?—A. I told you for what we put up and for the mortgage money that went in—which was put in by, as I say, one of the original people interested in the old John Inglis Company, and he wanted to take it in the form of a mortgage—we got all there was, lock, stock and barrel of the John Inglis Company and we set it up in this way: Only to those of us who took the risk and put the money up would accrue the benefit of the rehabilitation of the physical assets of the company.

Q. Is my statement correct or not, that you and your associates have put up \$350,000 or have committed yourselves to put up a total of that amount, and for that money you have got shares of a par value of one and a half million dollars and of a market value of at least that amount to-day?

Mr. BERCOVITCH: He has answered that.

The WITNESS: That would be correct, yes.

Mr. GREEN: I do not want any interruptions from my friends. They can ask questions later.

By Mr. Green:

Q. You said that is correct?—A. That is correct. We capitalized the company on what we considered it to be worth, based only upon what we considered the net worth of the physical assets as a going concern, plus the cash working capital, and we had 250,000 shares. We figured that the physical assets were worth one and a quarter million, approximately; the cash working capital was worth what it was, \$250,000; and \$1,500,000 divided by \$250,000 makes \$6 a share. That is how we worked that out.

Q. And holding those shares with a par value of one and a half million dollars, you and your associates consider that you are entirely at liberty to dispose of them or do with them what you wish?—A. We think we are; and we think they are worth that.

By Mr. Brooks:

Q. That is the opinion of the commissioner as well?—A. Yes.

Q. And also, I think, of the accountant who went over the thing. You, yourself, Major Hahn, have put how much cash into it to date?—A. To date I have put in \$207,490.28.

Q. You hold, according to the records, 107,694 vendors shares and 20,374 treasury shares?—A. I hold 107,964 vendors shares and 34,915 treasury shares.

Q. What total does that make?—A. It would be roughly 142,000 shares and some hundreds.

Q. The par value of those is \$6.00 a share; that would be around \$852,000 or a little better for the value of the shares, Major Hahn?—A. That is correct.

Mr. BERCOVITCH: I wonder if you would give that amount of money for them, Mr. Brooks?

Mr. BROOKS: People have already given on the market \$7.50 for the same shares.

Mr. BERCOVITCH: I wonder if you would do that.

Mr. BROOKS: Well, I have not that much money.

Mr. BERCOVITCH: Now, do not be so modest.

By Mr. Brooks:

Q. There have been certain sales. Part of exhibit 320 shows a list of complete sales. We have here R. V. Le Seur, 200 shares at \$7.50. That is sold on the market.

Mr. BERCOVITCH: That is 200.

Mr. BROOKS: Then there is A. Wilson, 100 shares.

Mr. BERCOVITCH: That is 300.

Mr. BROOKS: That would be my style.

By Mr. Brooks:

Q. There is a total of 3,000 odd. As a matter of fact, those shares are held at the present time—your shares—by the bank, are they not?—A. How do you mean?

Q. Or have they been released by the Ontario Securities Commission?—

A. The vendors shares are held in escrow at the bank, yes.

Q. The treasury shares are not?—A. No, they are not.

Q. They could be sold at any time?—A. That is correct.

Q. And the vendors shares could be sold at any time after release?—

A. That is correct.

Mr. BERCOVITCH: The treasury shares can only be sold on the consent of the government.

The WITNESS: No.

Mr. GREEN: Which government?

Mr. BROOKS: No. Major Hahn has said time and again that he does not consider he has to get the consent of the government to sell any of these shares.

Mr. BERCOVITCH: I know he has said that.

Mr. BROOKS: And he has had legal advice—not yours, possibly.

Mr. McGEER: No; but if he does sell these shares, Fraser Elliott has given us evidence very clearly—

Mr. GREEN: Not clearly.

Mr. McGEER: Well, the fact is that, on the interpretation of that clause in the contract, if there is any exploitation of the shares for profit the government has the right to cancel that licence. -

Mr. BROOKS: As a matter of fact, the shares have already been sold since that contract was made with the government. We have a list of them here.

Mr. BERCOVITCH: Are you speaking of vendors shares?

Mr. BROOKS: I am speaking of treasury shares.

Mr. BERCOVITCH: They must have obtained the consent of the government.

Mr. McGEER: What you are overlooking is that the restrictive provision is specifically set out to compel the use of the moneys raised by the company. If shares are sold and the use of the money does not go to the company, and the government feels that there is exploitation for profit through any form of manipulation of the shares on the market, then it has the right to cancel. What you ignore—and the whole tenor of your examination is that you want to ignore that the company's plant and assets which were turned over for these shares have any value. Of course, if you can get anybody to agree with you on that, I think probably you have good ground for cancelling the contract. I do not think that anybody looking at the thing would take that view; and

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unless that view can be established, then these shares have been issued for assets of real value which the company now possesses and operates. Whether those shares are going to have the book values given to them by Major Hahn is solely dependent upon the success of the future commercial operations of this company, which has got nothing whatever to do with the Bren gun contract. I have not known that it is improper for companies like the John Inglis Co. to do business with governments or with anybody else.

Mr. BROOKS: Nobody is asserting that.

Mr. McGEER: If we are going to set up the proposition that in an armament programme for the dominion of Canada there must be no business done by a company with the government—

Mr. BROWN: Nobody is saying that at all. That is ridiculous.

Mr. GREEN: The unfortunate part of it is that these shares actually have a market value; some time ago they were at \$7.50 a share, based on the fact that they have a government contract. Surely we are entitled to go into the question for that reason, if for no other. Major Hahn has told me this morning that he considers himself free to sell any of these shares, that the restriction in the contract does not apply; and he went so far this morning as to quote from the different authorities, the different counsel that appeared before Mr. Justice Davis, each and every one of them saying that there was nothing preventing such sale in the contract; and Mr. Fraser Elliott told us the same thing here a few days ago. He said there might be some possible restriction but he was not very sure about that; he did not think so.

Mr. BERCOVITCH: That was on the vendors shares.

Mr. GREEN: That went right into the contract itself.

Mr. BERCOVITCH: I haven't the contract with me. I left it upstairs. But my note on the contract was that the shares could not be sold either directly or indirectly without the consent of the minister. That is my impression of the contract.

Mr. GREEN: They could not be sold by the company.

Mr. McGEER: I think the terms go a little bit further than that. It says, if they are sold without the consent then this question of the manipulation of share for profit arises and the right on the part of the government to cancel develops. But no one before the Davis commission, and certainly none of the distinguished counsel who discussed that matter with the commissioner, that was quoted in the evidence of Major Hahn, would suggest for one moment that the assets purchased and turned into the John Inglis Company were not assets of value; because at least there was all the evidence before the commissioner that while the assets had been sold at one price by the trustee the fact was that the trustee was carrying an insurance value on those assets far above their price. Now, if Hahn and his associates find an opportunity due to the depression to pick up a concern that had been a real going concern at a price, and convert it into a going concern activity—

Mr. GREEN: With the help of a government gun contract.

Mr. McGEER: If you want to put that construction on it, and if there is anything wrong in that you cannot find it in the evidence here. The evidence here is that even if Hahn and his associates had not been able to negotiate the British contract, which the evidence clearly shows was a preliminary—

Mr. GREEN: He pushed it over subject to the Canadian government giving him a contract.

Mr. McGEER: —a preliminary condition to getting a Canadian government contract, all these commitments would have still remained without any government contract at all.

Mr. GREEN: The commitments would have been on John Nurse.

The WITNESS: Oh no, that is not the fact.

By Mr. McGeer:

Q. Let me put that question: What would your obligations have been in carrying out the whole transaction had you received no contract from the British government and no contract from the Canadian government?—A. I have said repeatedly, Mr. McGeer, that we were opening up the John Inglis Company. We had the commitments, and it was a firm commitment, and we were opening up the John Inglis Company, contract or no contract. I have said that before. I do not know why I have to repeat it.

Q. And the contract with the British government and the Canadian government was not capitalized at all in this obligation of yours?—A. Not to the extent of one dollar.

By Mr. Brooks:

Q. Now, Major Hahn your company was not capitalized for a million and a half, until after you obtained the Bren gun contract?—A. That is not correct.

Q. When was it capitalized at over a million dollars?—A. It was so capitalized in June of 1937.

Q. For 100,000 shares, isn't that what you told us?—A. No, no. You are not correct there, Mr. Brooks. It was in 1936 that we had a capitalization of 200,000 shares at \$1.00 a share, and in June of 1937 the capitalization was changed to 250,000 shares at \$6 a share. So the statement that it was not done until after we got the contract is absolutely incorrect.

By Mr. MacNeil:

Q. Was not the capitalization largely based on the negotiations for the contracts? That is specifically mentioned in the agreement of October, 1936, Exhibit 289:—

And whereas the said John D. Cameron and H. A. W. Plaxton and the persons represented by each of them respectively, together with the said James E. Hahn, are interested to manufacture war machinery, equipment, munitions and supplies or products of all kinds, and to act as agents, intermediaries or otherwise in obtaining, introducing or placing business or orders for war machinery, equipment, munitions and supplies or products of all kinds as may be furnished, dealt in, manufactured or supplied by other persons, firms or corporations, whether in the United Kingdom, Dominion of Canada, United States of America or elsewhere, and the parties hereto have agreed to incorporate, organize and promote a limited company for the above purposes.

Mr. BERCOVITCH: That has nothing at all to with it. That is just a general statement that they were going to do that branch of business, apart from their general commercial business.

Mr. McGEER: They had no contract at that time.

Mr. BERCOVITCH: They had no contract at that time.

Mr. McGEER: There is a difference between capitalizing on contracts available, and in a general way on the line of business to be done. What we are dealing with is not the past but what we are dealing with is whether or not there has been improper practice in the Bren gun contract which was made between the Inglis Company and the Department of National Defence.

The WITNESS: Could I say this, gentlemen: Possibly the best answer to what we did and why we did it and how we planned to do it right from the start is the

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answer that the plant gives to any fair-minded person who walks into it. It must be perfectly obvious to any person who wants to at least attempt to be fair and goes into our plant to see that it is primarily set up for long-range commercial operation. It is so obvious, I do not know why that thing should be suggested any more.

Mr. McGEER: It just comes down to this, that there must be some limit to the extent to which firms entering into business producing armaments are going to be pilloried indefinitely if they dare to take a contract with the government.

Mr. GREEN: Mr. McGeer has no right to raise a question of that type. We are appointed on this committee to go into all features of this contract, and when he comes along and says, how long is this firm or similar firms going to be pilloried, he is talking utter nonsense. He has no right at all to bring up things of that type.

Mr. BERCOVITCH: It has nothing to do with the manufacture of the gun.

Mr. GREEN: Our committee was appointed to go into this matter. This is only the first contract. The Lord knows how many more munitions contracts this country is going to have placed, and we might as well get the thing away on a proper footing. Mr. McGeer knows that quite as well as I do.

Mr. McGEER: I agree with that, but the point is this that all the facts that this committee has dealt with from time to time have been before the Davis commission, and they are not in dispute. For instance, there is no dispute about the amount of money Hahn and his associates put up, and the amount of the commitments that they obligated themselves to fulfill. There is no dispute about the facts of the distribution of the share capital. There is no dispute about the purchase price of the assets, or the price at which they were turned into the John Inglis Company. All of these facts are before us and they were before the Davis commission.

Mr. GREEN: That is just the point. We were not before the Davis commission, we were not there to hear the evidence. We are trying to get at the facts ourselves.

Mr. McGEER: But we are not in disagreement about the facts, or the effect of these facts before us. With them we can sit down as a committee and make our findings by analysing those facts. We are examining over and over again the same situation.

Mr. GREEN: We are not basing our findings on what was before the Davis commission. We are an independent body, to make our own findings. That is all I am trying to do, get at the facts. It seems to me that my good friend from Vancouver-Burrard (Mr. McGeer) has taken up more time than anybody else.

Mr. McGEER: Only to keep the record straight, and it has been a very difficult job, I might say.

Mr. GREEN: There is some question as to that; as to who kept the record straight.

Mr. McGEER: I have done nothing more than draw attention from time to time to the facts on the record.

By Mr. Brooks:

Q. You value your shares at \$6 or more, Major Hahn, the shares that you hold?—A. Yes, I think as a going concern—

Q. You would not sell them to Mr. Bercovitch or myself for less than \$6?

Mr. BERCOVITCH: If he takes a note I will buy them, if he wants cash I don't want them.

By Mr. Brooks:

Q. You value them at \$6 or over?—A. I told you the value that we place on them. That value is based upon the value of the physical assets which we estimate at a million and a quarter, plus \$250,000 of working capital. That is merely just taking these two amounts and dividing them by the number of shares and you get the resultant value, \$6 per share, and that is based upon the physical assets plus the cash working capital.

Q. And the business that you have at the present time?—A. We have not capitalized the profits of that business. We figured that as a going concern without capitalizing the profits that have accrued or may accrue from the contract.

Q. If you had no business prospects your stock would not be worth very much?—A. That is obvious.

Q. It is the business which results from the contract which really makes the stock valuable?—A. It is our business activity, not just the contract.

By Mr. McGeer:

Q. To bring it down to this: is the value of those shares based upon your Bren gun contract, or on the commercial business which you intend to do?—A. The ultimate future of the business is based almost entirely on the commercial activity, not on the Bren gun contract at all.

Q. Supposing you had nothing in that plant but the Bren gun contract?—A. I should be very concerned.

Q. And on the commercial business, what would the value of the shares be?—A. I don't know. I would not open the plant up for the Bren gun contract alone; nor, with the idea of only producing Bren guns.

By Mr. Brooks:

Q. As a matter of fact the arbitrary proportion made by the government as to what the commercial business would be worth and the armament contract would be worth is one-third of two-thirds?—A. That is not correct, Mr. Brooks.

Q. When they fixed your salary, didn't they fix it on that basis?—A. No. You have not got the picture at all. What is actually being done is, we are taking, we are trying to divide the overheads. Money spent in our plant falls into three distinct categories: One is the money spent that can be 100 per cent allocated to Bren gun work; the second is the money spent on labour or materials or personnel that can be 100 per cent allocated without any question to the commercial work; and then, there are a certain number of employees and executives who are functioning and whose activities apply to both divisions. Then, there is another cause for that arbitrary division being made in respect to this last year, and it was based upon as nearly as we could estimate the actual division of business and the actual proper application of these costs to the relationship between the commercial and the Bren gun business, for this past year. And then, each succeeding year that relationship will be adjusted according to what the actuality is. It has not been arbitrarily set, because we hope in two or three years time that it will not be one-third commercial and two-thirds Bren gun, that it will be fifty per cent commercial and fifty per cent Bren gun, or sixty per cent commercial and forty per cent Bren gun. That is what I would like to see it.

Q. But at present that is what it is?—A. It is fixed actually from time to time, based on the actuality at the time.

By Mr. McGeer:

Q. But the point about that is this, that only that small percentage of the total overhead is defined in that way, the bulk of the expenses of producing the Bren gun, and the bulk of the expenses in the commercial activity is allocated 100

per cent to each activity by the company?—A. We are defining in each case, as far as we can, as I said, 100 per cent to the division to which it actually applies.

Q. And does not that take a large proportion of the amount spent on the Bren gun portion, and a large portion of the amount spent in commercial activities?—A. That is obvious, yes. I do not think I need to labour it.

Q. It is obvious, but let me point this out, because that evidence came before this committee, it has been sent out to the public that all the costs are divided on the basis of one-third and two-thirds?—A. That is not the case.

Mr. McGEER: That is the statement of Mr. Brooks.

Mr. BROOKS: I was speaking of Major Hahn.

Mr. McGEER: You said far more than that. If you want to get down to the details of that then we should have these facts from the cost accountant. I mean to say, it is entirely wrong to say that the thing is being divided on a two-thirds—one-third basis when it is perfectly obvious to everybody that the larger proportion of the production cost in the Bren gun is allocated 100 per cent.

Mr. GREEN: The way they are divided, as we have gone into the picture, it is two-thirds against the government and one-third is paid by the Inglis company.

The WITNESS: For the time being only.

Mr. GREEN: I want to be fair just as much as you do.

Mr. McGEER: I rather hope that that is true.

By Mr. McGeer:

Q. Is it not also a fact that in getting the Bren gun under way that you were giving more of your time to that than you normally would when it is under way?—A. All I can say in so far as the division of my time is concerned is that right now it is not even now on a sixty-forty basis; I have spent about ninety per cent of my time on this Bren gun end of it.

By Mr. Green:

Q. You are getting a total salary of \$10,000 a year?—A. From the company, not from the government. I am only getting \$6,000 from the company, the Canadian government are paying me \$4,000 this year.

By Mr. Brooks:

Q. You are getting \$16,000?—A. Not at all, my total salary is \$10,000.

Q. From the government?—A. The company pays sixty per cent of that \$10,000 paid by both governments. And in connection with that, as I say I have spent ninety per cent of my time at least on the Bren gun contract.

By Mr. Green:

Q. You have 42,879 shares?—A. That is correct.

Q. And at a par value of \$6 per share that would have a value of \$867,274; is that correct?—A. Yes, assuming them to be worth that.

Mr. McGEER: Just a minute.

Mr. GREEN: I want to finish that now.

Mr. McGEER: Mr. Chairman, I wanted to complete this angle of it before Mr. Green continues.

By Mr. Green:

Q. And that is the amount that you have put in?—A. No, I think I have still some seven or eight hundred shares that I have not picked up.

Q. But you got shares for the money you put in?—A. That is right.

By Mr. Brooks:

Q. In connection with the commercial business, could you give us a list of the orders that you have for commercial business at the present time, its

value; we know what you have for armaments?—A. I have no objection whatever in giving you all the figures you want. Do I have to publish this information? I do not think it is fair.

Mr. FACTOR: No, certainly it is not fair.

Mr. BROOKS: It shows the proportion of business, that is all; that is the point under discussion here.

The CHAIRMAN: Would not the total serve your purpose there, Mr. Brooks?

Mr. McGEER: Why should we go into that? We have a fixed profit on this thing. Are we here to investigate the commercial business of Major Hahn, or are we here to investigate the Bren gun contract? I think surely there is a limit to where this committee can go.

The CHAIRMAN: If Major Hahn has no objection to giving the total—

Mr. BROOKS: That is part of the set-up.

Mr. FACTOR: I don't think Major Hahn should give that.

The WITNESS: I am glad to give you anything you want, but, naturally, as I say, we are a commercial company.

Mr. McGEER: We have some responsibility as to whether or not we are going beyond the scope of this inquiry.

Mr. BERCOVITCH: Yes, where is it going to stop?

Mr. BROOKS: There is no disposition on Major Hahn's part to hold anything back.

Mr. McGEER: I am not concerned about that.

Mr. GREEN: I am not pressing Major Hahn about holding information back.

The WITNESS: I shall be glad to give you the percentage, if you wish. I will give you the figures if you wish, but I do not think it is a fair thing to ask our company. The percentages were 29.45 for the commercial business, and 70.55 per cent for the ordnance business.

By Mr. Brooks:

Q. That does not include the manufacture of dies, jigs, and all that sort of thing, does it?—A. That includes everything.

Q. That includes the manufacture of dies and jigs, that is 29 per cent—A. No, no, that is 71 per cent.

By Mr. Green:

Q. Going back to the value of the plant; the government in the contract state the value as being \$280,000, do they not?—A. Yes.

Q. Did that include the plant, equipment and everything?—A. That included everything, and that was arbitrarily set, and I considered it not at all in accordance with its worth, but I agreed to it, so we will just let it go at that.

Q. And that was said as of March 31st, 1938?—A. No, it was a matter of negotiation. The interdepartmental committee were very insistent, I could see that they very much wished that the value of the plant for depreciation purposes be based in relation to our purchase price rather at its appraised worth, and I finally gave in to their very insistent demands for that particular thing.

By Mr. McGeer:

Q. Then the portion of depreciation that was to be allowed on was the proportion of that \$280,000 as taken for the whole plant that was used?—A. For the Bren gun, that is correct. In other words, the depreciation actually allowed on the Bren gun contract has no relation whatever to what it ought to be.

[Major J. E. Hahn.]

By Mr. Green:

Q. You said?—A. To what it should be, on the basis of the actual value of the property employed for the Bren gun.

Mr. McGEER: It ties it down to practically a negligible figure.

By Mr. Green:

Q. Then you have two associates with you in the DeForest Crosley business whom you have taken over to the John Inglis Company, have you not?—A. That is correct.

Q. Mr. Ingram and Mr. McLaughlan?—A. That is correct.

Q. They have had no experience in armament manufacture at all?—A. Not in armament, but they have had tremendous experience in tooling, which is important in this plant.

Q. And one of them, Mr. Ingram, is now occupying the position of manager of the plant at a salary of \$7,500 a year, and the other, Mr. McLaughlan, is occupying the position of superintendent of the plant at a salary of \$6,000 a year?—A. That is correct.

Q. All of these salaries being paid by the government?—A. That is correct. All of their time engaged on this work.

By Mr. Brooks:

Q. We brought out I think the shares owned by Major Hahn; I mean it is only fair to have on record the other shares owned by the men associated with Major Hahn. There were 42,756 vendor's shares, worth \$256,536, held by Cameron, Pointon and Merritt; and 31,775 vendor's shares worth \$6 a share, \$190,650, held by the Plaxtons, Howard and Gordon; then of the treasury shares of J. E. Hahn, Cameron, Pointon and Merritt held 7,778 of which some few were sold to Gordon Plaxton, 2,593, and Howard Plaxton, 2,592. Some of those have also been sold. That is correct, is it not, Major Hahn?—A. It does not check with my figures here.

Q. What are your figures there, vendor's shares?—A. The vendor's shares: Cameron, Pointon and Merritt is 39,256; H. A. W. Plaxton and Gordon Plaxton—I will have to add that up—29,442.

Q. And the treasury shares?—A. The treasury shares—Cameron, Pointon and Merritt, 12,621; H. A. W. Plaxton and Gordon Plaxton, 8,203.

Q. What is the date of that record?—A. This is of yesterday.

Q. Yesterday?—A. Yes.

By Mr. Green:

Q. What is the total held by each of these shareholders?—A. The individual totals?

Q. Yes; that is, both vendor's and treasury shares?—A. I would have to add them. I have them separately.

Q. Could you add them?—A. Yes. Do you wish mine included?

Q. Not yours, Major Hahn; we have already got those.—A. That is what I thought. Cameron, Pointon and Merritt, 51,777; and Bert and Gordon Plaxton, 37,655.

By Mr. Brooks:

Q. Has there been any buying or selling of shares in recent months, Major Hahn?—A. Not that I know of.

By Mr. Green:

Q. How much did those shareholders actually pay for those shares?—A. Well, that gets back again to those treasury shares, does it not? Cameron, Pointon and Merritt so far have put up \$75,726; the Plaxtons have put up \$49,000 and some hundreds.

Q. Nobody has paid anything for the vendors shares?

Mr. McGEER: How many times do you want to ask that question?

Mr. GREEN: You asked questions when you wanted to.

Mr. McGEER: You have asked that so many times.

Mr. GREEN: Are you running this inquiry or are you not?

Mr. McGEER: Wait a minute.

Mr. GREEN: Are you running this inquiry?

Mr. McGEER: No.

Mr. GREEN: I am inclined to think that you are.

Mr. McGEER: I am running it as far as that is concerned.

Mr. GREEN: I thought so—or trying to.

Mr. McGEER: Because I think to repeat over and over again a question which the witness has answered already—

Mr. GREEN: Talk to the chairman.

Mr. BERCOVITCH: It is a waste of time.

Mr. McGEER: Is not only a waste of time but a silly waste of time.

Mr. FACTOR: It is hard on the nerves, too.

By Mr. Brooks:

Q. How many shares are registered in your own name, Major Hahn?—

A. All the treasury shares that I have purchased are registered in my own name; and I have made application to the Securities Commission to have the vendors shares registered in my own name and they have agreed to that.

Q. In part of exhibit 353 it says: "all shares endorsed in blank." That includes the whole of the 191,662. That is correct, is it?—A. They were. That is the way they went through this company, Investment Reserves.

Q. But they are not registered in your name?—A. Not yet. I have applied to have them registered, to the Securities Commission; and they have consented to it.

Q. Those are coupon bearing bonds or shares, are they?—A. No.

Q. They are just common shares?—A. Yes.

By Mr. Bercovitch:

Q. Are there any bonds in this thing? Is there a bond issue?—A. There is a \$150,000 bond issue.

Q. That is on the mortgage?—A. Yes.

Q. Apart from the mortgage there are no bonds?—A. No.

The CHAIRMAN: How many shares did you take from Major Hahn's answer, Mr. Brooks, that each of the Plaxton's held? I am just trying to get it straight.

Mr. BROOKS: I did not take it down.

The CHAIRMAN: The witness replied that the Plaxton's held 37,600 shares. I was wondering for my own information whether each one of them held that many shares, or whether it was the total shares between the two.

Mr. FACTOR: Both together.

Mr. BROOKS: That would be both together, I would think.

The CHAIRMAN: I should like the record to be clear. Somebody will be asking that question in a minute or two.

Mr. BROOKS: Major Hahn was giving it from his records. I presume that is correct.

The CHAIRMAN: What you wanted was how many shares each of the Plaxtons held. Is that not it?

[Major J. E. Hahn.]

Mr. BROOKS: Exactly.

The WITNESS: H. A. W. Plaxton holds—do you want it to the exact share or just in thousands?

The CHAIRMAN: Give it in thousands.

The WITNESS: H. A. Plaxton—of the 37,655—has roughly 24,000 shares of that; and Gordon Plaxton has 13,000 shares of that.

By the Chairman:

Q. Does that include both vendor and treasury shares?—A. That includes both vendor and treasury.

The CHAIRMAN: That will keep the record clear.

By Mr. Green:

Q. Major Hahn, the other day you described yourself as a munitions contractor?—A. No. You described me as that, Mr. Green; I did not.

Q. Well, is that what you are or is it not?—A. I have told you repeatedly I am a manufacturer, and I will manufacture munitions; but I am not a munitions contractor as such, or a promoter as such either, which has been repeatedly brought up but not by this committee.

Q. Have you got any other munition contracts?—A. No.

Q. Are you negotiating for munition contracts at the present time?

Mr. GOLDING: That is your business.

Mr. FACTOR: What business is it of Mr. Green if you are?

By Mr. Green:

Q. Are you negotiating munition or armament contracts with the Canadian government?

Mr. FACTOR: What business is it of Mr. Green?

Mr. GOLDING: That is your business.

Mr. FACTOR: It is not in the inquiry either. That is beyond the scope of the inquiry.

Mr. GREEN: It is not beyond the scope of the inquiry.

Mr. FACTOR: It is, entirely.

Mr. GOLDING: Mr. Chairman—

Mr. GREEN: Just let us hear what the witness has to say.

Mr. FACTOR: No.

Mr. GREEN: It does not need about ten government supporters to say for him not to answer.

An hon. MEMBER: Forget that stuff.

Mr. FACTOR: You are not running the committee either.

Mr. McGEER: Mr. Chairman, there is a certain limit to which this inquiry should go and I think the objections that have been made to that question are certainly—

Mr. GOLDING: Sound.

Mr. McGEER: Yes; based on the proposition that this inquiry that this committee has before it is the contract for the Bren gun.

The WITNESS: Mr. McGeer, may I say this? I will answer that question. The answer to that question is "no." My only objection to answering it was that I do not think that type of question is a fair question to ask a company, and I do not think our company should be asked it.

Mr. FACTOR: It is very annoying.

The WITNESS: We have, I think, Mr. Green, exercised more than usual restraint or ordinary restraint in the face of what we have been exposed to the last year.

By Mr. Brooks:

Q. As a matter of fact, there is no objection to your company competing with other companies for munitions contracts at any time, so far as that is concerned.—A. Well, apparently all we have done—I cannot understand that, because *all* we have done is simply started up in industry, putting men to work; we have done something that has been a credit or should have been a credit to Canada. The construction that has been put on it I leave to your own imagination; I need not tell you. You know that better than I do.

By Mr. Green:

Q. Major Hahn, I asked that question about contracts because in the contract itself, the Bren gun contract, and also in different exhibits before Mr. Justice Davis, there is reference made to the manufacture of rifles. What is the position of your plant with regard to the manufacture of rifles?

Mr. GOLDING: That is your business.

The CHAIRMAN: May I point out, Mr. Green, in answer to the member for Burrard, that our order of reference applies only to the Bren gun agreement.

Mr. MACNEILL: And all relating documents.

The CHAIRMAN: And relating documents.

Mr. FACTOR: Related to the Bren gun.

Mr. GOLDING: Yes.

The CHAIRMAN: I think that covers the point brought up by Mr. McGeer.

Mr. GOLDING: Just a minute, Mr. Chairman. I think it is absolutely unfair. Here is the head of the company who is no doubt trying to get business every place that it is possible to get it, commercial or anything else. He has absolutely no right to divulge what activity his department is carrying on there or any other place. Why should he divulge to this committee whether he is trying to get a contract? It has absolutely nothing to do with this contract whatsoever, and it is unfair to ask the witness such questions as that.

Mr. FACTOR: Not only that, but it is unfair to put him in the position of having to refuse to answer a question that is entirely improper.

Mr. GREEN: Mr. Chairman, I will refer you to clause 3 (a) in the contract.

Mr. McGEER: In any event, I would submit that the question has been answered and the answer is "no". That ought to end it.

Mr. GREEN: I would refer you to paragraph 3 (a) of the Bren gun contract which reads as follows:—

There will be installed, as hereinafter provided, in the buildings made available by the party of the second part the machinery, tools, dies, jigs and gauges necessary for the manufacture of the said Bren gun in accordance with exhibit (A) attached and forming part of these presents, it being expressly agreed that the machinery therein mentioned when so installed shall be capable of being utilized to produce Enfield rifles, pistols and other small arms, as well as parts and components thereof.

The CHAIRMAN: What is your question?

By Mr. Green:

Q. Major Hahn, will you explain the set up in your factory; that is, whether you are making provision there so that rifles could be manufactured? —A. Did I not explain that fully on Friday, Mr. Green? I said, first of all, I noticed when I went through Enfield that it was obvious—it was explained to

[Major J. E. Hahn.]

me on my own investigation that a small arms rifle factory cannot necessarily make machine guns, but if a machine gun factory is properly set up, it should be set up to make all small arms; and that is the way we have laid our plant out. It is simply a matter of common sense and economy, from that standpoint. I would say we would be very negligent if we did not lay that plant out to make all small arms—to have that large capital expenditure simply for machine guns.

Mr. GOLDING: Mr. Chairman, Mr. Green's question went a way beyond that. In this plant there were millions of dollars worth of munitions manufactured. If Mr. Hahn had been now seeking a contract with the British government for shells or anything else, would Mr. Green have any right to ask him what he was doing in that connection? His question went far beyond that, and it was a most unreasonable question to ask; and the witness has no right to bother his head answering those questions at all.

Mr. BROOKS: In exhibit 289, page 2, it says:

Whereas the said James E. Hahn has had valuable experience as a manufacturer, and is interested to promote and to utilize the Inglis plant for the purpose of manufacturing iron and steel equipment and machinery as well as war machinery, apparatus, equipment, tanks, munitions and supplies of all kinds. . . .

Mr. FACTOR: That does not entitle you to ask other questions.

Mr. McGEER: It has got nothing to do with the Bren gun contract.

Mr. BROOKS: This contract. All these are exhibits which were before Commissioner Davis in his investigation of the Bren gun contract.

Mr. McGEER: I would judge by the letter written by Sir Harold Brown to the Minister of National Defence indicating the high standing in which the war munitions people held Major Hahn, that certainly if there was an emergency arising he would be one of the men they would look to for the kind of assistance the whole empire might need.

Mr. BROOKS: Have you the letters there?

Mr. McGEER: The letters are on file. They are exhibits 227 and 240. They were before the Davis commission.

By Mr. Green:

Q. What would be the capacity of the plant for rifles?—A. Again, should I—?

Mr. FACTOR: No.

The WITNESS: Is the answer to that necessary?

Mr. FACTOR: Mr. Chairman, the contract says that the plant shall be so fitted as to be able to manufacture rifles. Major Hahn has already answered the question that the set up is of such a character. I say that beyond that we cannot go in this inquiry.

By Mr. Green:

Q. May I refer you to exhibit 43 which is a letter to Col. LaFleche from Major Hahn, dated 27th May, 1937. Have you got that before you, Major Hahn?—A. Exhibit which?

Q. Exhibit 143.—A. Yes, I have that.

Q. It starts off:—

The proposed plant will have a capacity of 2,500 Bren guns or 12,000 Enfield rifles per annum single shift of 6,000 Bren guns or 30,000 Enfield rifles per annum triple shift.

Apparently from the start you were putting in figures on the manufacture of rifles as well as of Bren guns. I am simply asking now: when your plant is

finally equipped for the manufacture of Bren guns, what will be the capacity for Enfield rifles?

Mr. McGEER: Another question.

Mr. FACTOR: That was not the question at all.

The WITNESS: Well, the capacity will be what is stated here.

By Mr. Green:

Q. That is, with the machinery which will be installed, the plant will have a capacity of 12,000 Enfield rifles per year?—A. No, it does not say that—that is single shift.

Q. I beg your pardon?—A. Single shift, yes.

By McGeer:

Q. How many will it have full capacity?—A. Well, I mean, do you wish this question—?

Q. These questions are quite proper, because the contract provided that this plant had to be equipped to produce Bren guns and to produce Enfield rifles. If this contract has been complied with, then it is equipped to produce a certain amount of Enfield rifles?—A. It is.

Q. The question that is now asked is a perfectly proper one, and I take it that that contract has been fulfilled?—A. It has been fulfilled. My only hesitancy in answering a question of this type is that I have a natural reticence, as an overseas man, to making public information of this kind. It is right there on the record. It is before Mr. Green, on exhibit 143.

Mr. GOLDING: Mr. Chairman, the question that was asked of Major Hahn was: Are you trying to get any other munition contracts?

Mr. McGEER: That is a different question.

The WITNESS: I am now asked—

Mr. McGEER: This question is all right.

The WITNESS: I am asked now what the potential Enfield rifle production is in the plant we set up, and under that record Mr. Green has, exhibit 143, which he has just quoted, it states exactly what it is. That is what it is, without necessarily again plastering all over the newspapers information of this kind.

By Mr. Green:

Q. What about pistols, which are also covered?—A. It is also equipped; it is equipped to make any small arms.

Q. Does that include— —A. Pistols?

Q. —other machine guns?—A. Yes.

Q. What types would that include?—A. Any type up to a certain calibre.

Q. Would it include the heavy machine guns such as Vickers?—A. Yes

Q. And Colts?—A. It is a factory that can produce all small arms and machine guns, the only limitation being the calibre of the gun, not the type.

Q. What limitation is there on the calibre?—A. Well, again is that a question you wish me to answer, gentlemen?

Mr. FACTOR: No, do not answer that.

Mr. GREEN: I do not know why Mr. Factor should say that.

The WITNESS: Mr. Green, as I say, do you want that type of information? Are we sound in giving out that type of information to every potential enemy of this country?

Mr. MACNEIL: The minister gave such information in the house the other day.

Mr. FACTOR: Not in the Inglis plant.

[Major J. E. Hahn.]

Mr. MACNEIL: The source of supply, the types of equipment, the number of guns.

Mr. FACTOR: Generally speaking.

Mr. MACNEIL: The calibre of the guns.

Mr. FACTOR: But not singling out any manufacturer and spreading that information abroad.

The WITNESS: I would prefer the government to take the responsibility, if they wish to divulge information of this type. I do not think we should.

By Mr. Green:

Q. Is your factory equipped to make anti-aircraft guns?—A. Are you talking of machine guns or cannon?

Q. No, anti-aircraft guns.—A. You are talking of cannons, then.

Mr. FACTOR: You do not know the difference.

Mr. GREEN: I know as much as you do about it, and more than some.

Mr. McGEER: Is not the answer to that: As long as it comes within the small arms category? Could we not leave it at that?

By Mr. Green:

Q. In the armament trade does any type of anti-aircraft gun come under the heading of small arms?—A. No.

By Mr. MacNeil:

Q. High-angle fire machine guns?—A. Any machine gun; that is a heavy machine gun used for anti-aircraft work.

Q. Machine guns for aircraft?—A. Yes.

Q. And mountings?—A. Yes. Again, that falls within the calibre limitation I just mentioned.

Mr. McGEER: Would they use that type of Bren gun for aircraft?

Mr. MACNEIL: No. They use other types for high-angle firing for aircraft.

By Mr. Green:

Q. You are not equipped for the manufacture of what you call cannon of any calibre?—A. Well, we have not the machinery in our plant to make cannon. We have a plant that would be very useful for the production of cannon. I would imagine we would have about as much machinery to make cannon as anyone in Canada.

By Mr. McGeer:

Q. If you went into the business of making cannon, you would have to equip it with machinery, more machinery than you have at the present time?—A. That is a totally different plant.

Q. Is this the situation with reference to this contract: When the agreement was made to finance the equipment of the plant with the machines necessary to turn out machine guns, it was decided also that this plant should be set up in such a way that it would be capable of producing practically a full line of what are commonly known as small arms?—A. That is correct, yes.

Q. And that was a condition of your contract with the Department of National Defence and the British war office?—A. That is correct.

Q. And that was, I presume, inserted to meet any possible emergency which might take place due to international conditions as they are in the immediate future?—A. And also to follow out the usual practice in any small arms plant.

Q. As a result of this set up, we have at least established in the dominion of Canada a plant and equipment in which small arms can be produced for Canadian and British defence purposes?—A. That is correct.

By Mr. Brooks:

Q. The equipment used in the production of Bren machine guns or part of it can also be used for the production of Enfield rifles?—A. Oh, yes. That equipment can be used—you see, when you talk of Ross rifle equipment or Bren machine gun equipment, that is rather misleading, because what we should really be talking about is simply standard equipment to manufacture small arms. In other words, the machinery is not special at all to the Bren gun; it is special to the manufacture of machine guns of any type.

By Mr. McGeer:

Q. And small arms?—A. And small arms of any type.

By Mr. Brooks:

Q. With the equipment you have, can you manufacture Bren guns and Enfield rifles at one and the same time?—A. That depends on how many Bren guns or how many Enfield rifles were to go through. You can be producing both, or entirely machine guns or entirely Bren guns. You can be producing both at the same time, because that is possible. It depends on how many you want of each at the same time.

Mr. GREEN: You could do that right from the time you start in production.

Mr. McGEER: There is nothing wrong with that.

Mr. BROOKS: I am not suggesting that there is.

The WITNESS: That is possible, yes; that would be possible, if you laid out your production plan accordingly.

Mr. McGEER: Shall we sit this afternoon?

By Mr. Green:

Q. You mentioned in your preliminary statement shells, tanks and bombs?—A. Yes.

Q. Is your plant equipped at the present time to manufacture those types of armaments?—A. Our plant is as fully equipped to manufacture shells as probably any company that has started or would start in the manufacture of shells, that have been in this business before. Certain of our equipment would still be useful—for example, our hydraulic compression equipment, our hydraulic compressors that are used to run the forging presses; certain of our forging presses, certain of our extruding equipment, certain of our heat treating equipment, up to the handling of the billets on the high speed automatics. Up to the handling of the billet we are equipped. From the billet on, the art is changed to high speed equipment.

Q. You are equipped in the commercial division?—A. In the commercial division.

Q. For that work?—A. Yes. With regard to bombs, we could make bombs without almost any addition. We could make tanks, less the engines, the same as aeroplane manufacturers do to-day. They do not make the engines. They make the complete chasses and get the engines. We could make tanks almost completely less the engines, with the present equipment we have in the commercial division.

By Mr. McGeer:

Q. You could make various types of gun carriages?—A. Yes. We could make parts for a great many things.

By Mr. Green:

Q. Is there any other type of armament except munitions that you consider you could make in the factory?—A. We have a plant there for the manufacture of light cannon, which is probably as well equipped as any plant is to-day

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without all the new equipment that has to go into any plant undertaking it. We have lathes; we have cranes. We have that type of equipment.

By Mr. MacNeil:

Q. You are speaking of mortars?—A. I am not talking of mortars only. I am talking of the field gun type of lighter cannon type.

By Mr. McGeer:

Q. All this equipment has been set into the plant under the direct supervision and direction of the Department of National Defence and the British war office?—A. Yes. The whole thing was laid out, the machinery; and specifies, the actual lay out of our building.

Q. And speaking of the various purchases of machinery; we dealt the other day with the question of purchases in Canada and Great Britain and elsewhere. Those purchases have all been made subject to the supervision of the officials of the Department of National Defence?—A. The Department of National Defence co-ordinating with the advice of the war office and the assistance and advice of Enfield.

Q. So that any information the committee want in regard to that they can get from the departmental officials?—A. That is correct.

Q. Lieutenant Jolley is the man who is the directing officer?—A. I would think so, yes.

The CHAIRMAN: Gentlemen, what are your wishes now, in connection with Major Hahn? He is very anxious to get back to Toronto.

Mr. GREEN: Shall we have a meeting to-morrow morning?

Mr. McGEER: Could we sit this afternoon?

The CHAIRMAN: Would it be possible to have a meeting this afternoon?

Mr. McGEER: Major Hahn ought to be able to get away.

The CHAIRMAN: In order to allow him to get away on the night train, what about a meeting sometime between now and eleven o'clock to-night?

Mr. McGEER: If something should develop and he should be required to be recalled, he could be recalled.

Mr. FACTOR: Why not meet at four o'clock this afternoon?

The CHAIRMAN: Suppose we adjourn until four o'clock this afternoon in this room?

Mr. McGEER: What witness are you going to call after Major Hahn gets through? Could we have Mr. Jolley here?

Mr. GREEN: We had better wait until we are through.

The CHAIRMAN: Don't you think it will take us two hours to get through with Major Hahn? What about you Mr. MacNeil?

Mr. MACNEIL: I will be here at four o'clock.

The CHAIRMAN: All I wanted to know was whether or not we could arrange to call another witness.

Mr. GREEN: I think we will need most of the time to complete our work with this witness.

Mr. McGEER: I think this witness is through now.

The CHAIRMAN: All right, gentlemen, we will meet again at four o'clock.

The committee adjourned at 1.05 o'clock p.m. to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: All right, gentlemen, we will proceed.

Mr. MCPHEE: This morning some corrections were made in connection with the evidence of our proceedings. I have been checking over the proceedings of the last three or four sittings and I find on page 376 questions purporting to be asked by me which were really asked by Mr. MacNeil. There is no object in my getting the information asked for in here, and it was Mr. MacNeil's question. Could that be corrected?

The CHAIRMAN: You did not ask the questions?

Mr. MCPHEE: No, Mr. MacNeil asked them.

Mr. MACNEIL: They were good questions.

The CHAIRMAN: Will you accept responsibility for them, Mr. MacNeil?

Mr. MACNEIL: They were mine, all right, Mr. Chairman.

The CHAIRMAN: The corrections will be made accordingly.

By Mr. Brooks:

Q. Who are the present directors of the John Inglis Company?—A. The present directors are the same directors that were on the company when the company was formed, with the addition of Messrs. Ainsworth and McLaughlan.

Q. Would you just give the names?—A. Myself, A. L. Ainsworth, W. R. McLaughlan; then the four divisional directors, L. McCartney, K. Robinson, F. N. Campbell, John S. Wright; and they will be changed at the annual meeting which is to be held shortly.

Q. The four last ones are the directors who were also directors of the Anglo-Canadian Company and the British Engineering Company?—A. That is correct, the original provisional directors.

Q. Also some investment company, I forget the name of it.—A. Investment Reserve, yes.

Q. And they were employees of the Plaxton company?—A. That is correct.

By Mr. Green:

Q. Yesterday morning we went over the features in connection with your trip to England in February of 1936 during which time you were appointed a representative of the Canadian government.—A. Yes.

By Mr. Bercovitch:

Q. When you say yes to that you qualified that in that you said you did not know that you were appointed a representative.—A. I am saying yes in regard to the statement about going over for the contract. I have already a number of times expressed my comment as to being a Canadian representative.

By Mr. Green:

Q. I think it is all in the documents at any rate. You did get considerable help from the Canadian government on that occasion?—A. I got the help that any contractor in my position would have gotten and was entitled to.

Q. Well then, when you came back you got in touch with General LaFleche, did you not?—A. Yes.

Q. For example, we find there are different letters on the file from yourself to General LaFleche and from him in reply, and then when you look at Exhibit 126 which is a letter from Colonel LaFleche to Dr. Skelton, Under-Secretary of State for External Affairs, which was marked as being seen by the Minister of National Defence on March 23, 1936—A. What is the number?

Q. And is dated March 23, 1937—I presume that the notation about the minister seeing it should be 1937 also. That is a letter, a secret letter, from Colonel LaFleche to Dr. Skelton. It says:—

Dear Dr. SKELTON,—I am informed that Major J. E. Hahn intends to proceed to England next week on private business which has nothing to do with armaments or munitions, but rather in connection with ordinary commercial matters.

You had told Colonel LaFleche that, had you?—A. I told him that the thing that took me over there immediately was at the actual time of going determined by other business that had arisen at that time.

Q. Then the letter goes on:—

You will recall that we have not yet had a reply from the government of the United Kingdom to our suggestion that it would be of great strategic value were Bren machine guns manufactured in Canada. It is well known that this cannot be done unless an order for not less than 5,000 Bren machine guns is placed with the Canadian factory. If this were done, then the Canadian government would be able to purchase this weapon in Canada at a reasonable price. If the gun were made in this country, I am convinced that we would get earlier deliveries than if purchases were made in Great Britain.

May I ask whether it would be possible for your department to inform the High Commissioner of Major Hahn's intended visit to London, so that he might prepare the way for Major Hahn who, I am certain, would be very pleased indeed to see Sir Thomas Inskip and Sir Harold Brown again in regard to the manufacture of the Bren machine gun in a Canadian factory, whether owned or controlled by Canadian government or by private individuals.

From reports I have received, Major Hahn got along splendidly with Sir Thomas and Sir Harold when he was in England last November, and I am certain that if Mr. Massey were to let them know that the Canadian government is intensely interested in this subject Major Hahn would expedite decision.

It would be very much appreciated if you would be good enough to let me know what may be expected in this connection sometime this week, if possible.

Yours sincerely,
L. R. L.

Apparently you are referred to there as a subject.

Mr. BERCOVITCH: I think there should be a comma after the word "subject."

Mr. GREEN: In other words, Colonel LaFleche was giving you all the backing possible in connection with this second trip to England?

Mr. FACTOR: Does he know of this letter being forwarded? You had better ask him that first.

The WITNESS: I was not aware of this letter.

By Mr. Green:

Q. You found out about it subsequently though—A. I found out about it during the inquiry, yes.

Q. You knew that Colonel LaFleche was doing his best to give you government backing on your trip to England?—A. I would not say government backing; it is obvious that when I spoke to him and told him that I was going over again that I was also going over to see where that Bren gun situation stood, and I probably suggested at the time that anything he could do to facilitate or expedite what I was doing I would appreciate, and apparently he wrote this letter.

Q. Then comes Exhibit No. 127, a private and confidential letter to yourself from the Hon. Mr. Mackenzie, the Minister of National Defence?—A. Yes.

Q. It is dated March 31st, 1937:—

Dear Major HAHN,—I am pleased to learn that it is your intention to proceed to England on private business within the next few days—

Mr. MCPHEE: Wasn't that letter read in evidence the other day?

The WITNESS: It was referred to, I do not know whether it was read into the evidence or not.

Mr. MCPHEE: I think it was.

Mr. FACTOR: There is so much repetition we might as well put it in.

By Mr. Green:

Q. The letter goes on:—

I think you should know that it will be extremely difficult to purchase Canadian-made Bren machine guns if only the number required by my department were to be taken into consideration. I understand that in such case the overhead would be out of proportion whereas should it be possible to manufacture a greater number than will be required within the next few years by Canada the unit price would permit manufacture in this country whether by private interests or in a Dominion arsenal.

May I wish you a comfortable and successful trip.

Sincerely yours,

I. A. MACKENZIE.

By Mr. Green:

Q. You received that letter, did you Major Hahn?—A. I received that letter in England.

Q. When did you go to England, by the way?—A. I got to England the early part of April, I think I sailed about the last week in March. This letter as I remember it followed me over. I was supposed to get it before I left but I did not get it, and I received it after I arrived in England, so I did not use it in any way at all.

Mr. MCPHEE: That same letter was put on the record at page 489 of this proceeding.

By Mr. Green:

Q. Then, following that, when you got to England you found that you were having trouble getting in touch with the war office again?—A. No, on the contrary there was no difficulty at all. I made my contact with the war office as soon as I got through, that is, as soon as I got to the Bren gun. I finished up my other business first in about a week's time and then I made my own contact with the war office. There was no trouble at all.

Q. Why did you cable to Colonel LaFleche and also to Hugh Plaxton for help from Canada? You remember I read you that—I won't read those cables again.—A. Yes. I remember.

Q. I think they are in the record of the last day's proceedings.—A. It was my understanding when I left for England that the original negotiations that I instituted in my previous trip with Sir Harold Brown had been held up by cables, and when I arrived in England I found that those cables either had not been sent or received, and I certainly wanted to know just what the position was and what had been done.

Mr. FACTOR: May I point out that all this evidence is contained on pages 489 and 490, starting on page 489 at the bottom of the page.

Mr. MCPHEE: Yes, and on page 490 the examination is by Mr. Green, the questions are by Mr. Green.

[Major J. E. Hahn.]

Mr. FACTOR: The last letter he read it there, the one he just read again, and then he asked some questions, and he is asking them again now in practically the same way.

Mr. GREEN: Well, what was the last exhibit?

Mr. FACTOR: The last exhibit—then you refer to exhibit 131, the reply of General LaFleche to Mr. Plaxton.

Mr. GREEN: And then Mr. McGeer mentioned exhibit 132, which in fairness I think should be read into the record; exhibit 132, also 133 and 134. Will you look at this one, this is a letter from Colonel LaFleche to Dr. Skelton dated April 30th, 1937.

Mr. FACTOR: That has already been referred to in the evidence. What are you reading now; is it, "I am informed that the Prime Minister—" is that the one?

Mr. GREEN: That letter reads, "Dear Dr. Skelton, may I refer to my secret letter dated the 23rd of last month—"

Mr. McPHEE: Does the witness know anything about that letter?

The WITNESS: No.

By Mr. Green:

Q. There was some trouble about communications not going to England, wasn't there?—A. That is correct.

Q. And this letter explains why these were not sent to him.—A. I knew nothing about this letter.

Q. You found out about it subsequently?—A. I saw this letter at the inquiry last fall.

Q. It reads: "May I refer to my secret letter of the 27th of last month—"

Mr. BERCOVITCH: He does not know about it, what is the sense of putting it on the record? Where does it come in? We have the record pretty well cluttered up.

Mr. GREEN: I am just picking up threads. I want to see exactly what the government did to boost Major Hahn in England.

Mr. FACTOR: When we have this witness in the box why not go ahead and get through with him.

Mr. GREEN: Furthermore, Mr. McGeer asked the other day that this letter, the first in the series I named, be put in. Part of it was already put in.

Mr. BERCOVITCH: Do I understand that you want to help Mr. McGeer?

Mr. GREEN: Yes.

Mr. BERCOVITCH: Well then, let's put it in.

The WITNESS: On that point I would like just again to say that there was no boost. I got in touch with the war office myself. I saw Sir Harold Brown myself without any boost, or anything else. I simply called him up and made an appointment with him and carried on from where I left off.

Mr. GREEN: Well, if my friends object, I will not put this letter on the record; but I want it understood that I think it should go in.

Mr. BERCOVITCH: We don't want to stop you from carrying out your promise to help Mr. McGeer.

Mr. GREEN: I may go a long way.

Mr. BERCOVITCH: If you go too far, we might stop you.

Mr. GREEN: This letter reads:—

Dear Dr. Skelton:—May I refer to my secret letter dated the 23rd of last month concerning Major Hahn and quote below the contents of a cable addressed to me by this gentleman from London:—

Canada House claim cables not received, advise.

On discussing the matter with my minister this morning he requested that I explain the great importance and urgency of this problem and to request that immediate action be taken to assist Major J. E. Hahn who, evidently, intends to remain in London for a few more days.

I would appreciate very much having your reply at an early date.

Sincerely yours,

L.R.L.

Then the reply is exhibit 133 dated the following day, April 21st, 1937, and reads as follows:—

Dear Colonel LaFleche:—With regard to your enquiry as to the request of the British government to look favourably upon the possibility of giving an order for the Bren machine gun to Major Hahn and his associates, I may say that I have called the Prime Minister's attention again to this matter, and to two or three other national defence questions that are outstanding. I hope to get a reply by to-morrow. Mr. King had intended to discuss some of these matters in a defence committee meeting.

Yours sincerely,

O. D. SKELTON.

Then there is a further letter of April 23rd, 1937, exhibit 134, addressed to Colonel LaFleche from Dr. Skelton, which reads as follows:—

Dear Colonel LaFLECHE.—With reference to the suggestion that the High Commissioner should be asked to indicate to the government of the United Kingdom that the Canadian government would be pleased to have the government of the United Kingdom place orders for the Bren gun with the company organized by Major Hahn and his associates, I was informed by the Prime Minister after council yesterday that the question had been considered, and it was not thought advisable at present to request the government of the United Kingdom to place in Canada munitions orders of this type.

Yours sincerely,

O. D. SKELTON.

Mr. FACTOR: Now we are finished with Friday.

By Mr. Green:

Q. However, Major Hahn, you did have conferences with the officials of the war office?—A. I went to them direct, yes.

Q. Colonel LaFleche left Canada, I believe, the day after this letter which I have just read, dated April 23, 1937, and reached England. You saw him in England a few days later?—A. I saw him in England either the end of April or the first week in May of 1937, after I had had these conferences with the war office.

Q. When Colonel LaFleche got to England you made a report to him, did you not?—A. Yes.

Q. And also you gave him a letter about the Inglis company. Would you refer to exhibit 137, the first part, which is a letter dated May 6th, 1937, addressed to Colonel LaFleche. There is no signature shown on this copy, but I presume that letter was from you. Was it?—A. That is correct, yes.

[Major J. E. Hahn.]

Q. It reads:—

Dear Colonel LAFLECHE.—With reference to our conversation today I have pleasure in confirming your understanding that I represent the John Inglis Company of Toronto having a controlling interest. This company was incorporated in 1860.

That is a misstatement, is it not?—A. Well, you would have to read this letter together with my letter of May 22nd and also—

Q. This letter was on May 6th, which is two weeks before May 22nd?—A. Let me finish; and also in the light of all the knowledge and all the facts that Colonel LaFleche already knew before I wrote this letter. This letter was the result of a telephone conversation, a very casual comment over the phone. I did not know what he wanted. I did not attach any significance to it at all. I thought he simply wanted to know more or less the general background of our company.

Q. The exhibit, the preceding letter, shows that Colonel LaFleche sent this letter here to the Minister of National Defence?—A. Yes; but I did not know that.

Q. Apparently that was the purpose of the letter?—A. Yes, but I did not understand that at the time. I did not understand how much detail he wanted or just exactly what he wanted. When I did understand what he wanted, I sent him a letter about a week or ten days later.

Q. You will admit that this statement in the letter of May 6th is not accurate?—A. Well, that statement as applied to our company is not accurate; as I say, it was to a man who knew exactly what the entire situation was.

Q. Then the following paragraph is as follows:—

My company has been engaged since incorporation in the manufacture and production of steel and engineering equipment.

That is not accurate either?—A. Well, the whole letter, as I say, must be taken as written to a man with whom I had discussed the whole situation a great many times, who knew we were reorganizing a company. I thought all he wanted was more or less the background of the old company, as to what they did, how long they were in existence and more or less generalities concerning the old company.

Q. Your letter refers to your company, not the old company.

Mr. McGEER: Mr. Chairman, the John Inglis Company which was taken over by Major Hahn was in the business of manufacturing these things since 1860. How can you distinguish from this company to be operated by Hahn and the John Inglis Company as it had been operated all the way through? If the proposition was that anything hinged on a representation such as this, it might be different. I do not think anybody could read into this letter—I mean, no one is disputing the fact that the John Inglis Company was an operating company. It did cease operations. It was then taken over.

Mr. GREEN: Of course, the unfortunate part of it is that this letter was for the purpose of giving the Minister of National Defence information; and it gives him inaccurate information.

Mr. McGEER: I know; but surely you come down to the proposition that we are interested in, as to whether or not this company is able to carry out the terms of the Bren gun contract.

Mr. GREEN: Probably you and I are not interested in the same thing.

By Mr. Green:

Q. That statement in the second paragraph is also inaccurate, is it not?—A. No. This letter, Mr. Green, cannot be taken other than as I say; it is written as far as I knew to Colonel LaFleche. I had no knowledge whatever it was to

be handed to the minister or anything else. It was the result of a telephone conversation where it was not told to me that it was for anyone else except himself. And it was written, as I say, rather carelessly, if you like, in the light of a letter where I understood the man to whom I was writing it knew the whole situation from start to finish and would not construe that letter in any other way except to fit it in with all the facts he already knew.

Q. Then the letter goes on:—

We have acquired further important Canadian rights for new patented sectional steel poles for which there is an important market; it is in this connection that I am presently in England.

Is that correct?—A. That was correct, yes.

Q. That was the reason of your trip to England?—A. That was the reason of the time of my trip to England. It was perfectly well understood that I was obviously going to look into the whole Bren gun situation as well as this pole situation.

Q. Continuing the letter:—

It has always been my intention should we be called upon to manufacture the Bren light machine gun in Canada to produce them as a special line in addition to the normal productions of the John Inglis Company.

It may interest you to know that the present plant and equipment of the John Inglis Company represents an investment of \$1,800,000.

That, of course, was not an investment by yourselves?—A. It was not intended to be or intended to represent that.

Mr. McGEER: It did not say so in the letter.

By Mr. Green:

Q. To a person who did not know the set up of your company, it would certainly read as though there had been \$1,800,000 invested in your company.—A. But this was a letter sent to a person who did know the set up of our company, Mr. Green.

Q. Then this letter of May 22nd.—A. What is the number of that?

Q. That is exhibit 138. For what purpose was this letter written, Major?—A. This letter—I was asked to set out more or less in detail, more completely than I had in the previous letter, more or less the general situation of the picture—of the general picture.

By Mr. MacNeil:

Q. For Canadian government purposes?—A. No, just to Colonel LaFleche; that is all I knew.

By Mr. Green:

Q. Did you know there is also a letter attached to this one to Colonel LaFleche addressed to the minister again, reading:—

Following our discussion earlier in the week, I put a few questions to Major J. E. Hahn and attach hereto his letter of this date concerning the John Inglis Co. of Toronto.

May I request instructions, please.

You knew, I presume, that the information was being obtained for the minister?—A. No, I did not. It is obvious from what has gone on so far with a lot of the letters, that there are great many things I was not told what they were for. I was asked for certain things and this was one of them. With regard to most of the things, I was not told by Colonel LaFleche or by the High Commissioner what these things were for.

[Major J. E. Hahn.]

Q. At this time the Minister of National Defence was negotiating with the British authorities, the British defence authorities, in connection with the Bren gun?

Mr. McGEER: Surely he cannot ask such a question as that of this witness.

Mr. GREEN: He can say if he knows.

Mr. McGEER: You cannot say anything on that.

By Mr. McGeer:

Q. Do you know that?—A. I can answer not to my knowledge. That is my answer.

Mr. McGEER: It is obvious.

Mr. GREEN: Major Hahn is well able to take care of himself.

Mr. McGEER: You ought to know better than to ask a question like that.

Mr. MACNEIL: From the previous evidence, Major Hahn stated he was present during negotiating with the patentee.

The WITNESS: I was with Colonel LaFleche, not the minister.

Mr. McGEER: This question was directed to the minister's negotiations. That is a different thing.

By Mr. Green:

Q. Major Hahn, this letter of the 22nd May, 1937, is from yourself again to Colonel LaFleche, is it not?—A. That is right.

Q. Both of you still being in England?—A. That is right.

Q. And it reads:—

The John Inglis Company was founded in 1860 by the late John Inglis and was carried on by members of the family until some time after the death of the son, the late John Inglis, in February, 1936.

In May, 1936, negotiations were opened by my associates and myself for the acquisition of the assets of this company. In July, 1936, the arrangement was consummated whereby my associates and myself acquired the plant, machinery, name and good will of the John Inglis Company. An analysis of the company's operations shows during the period 1930-36.

There is nothing in your letter that I can see to explain that actually you were representing a new company, that a new company had been formed. There is no mention of that in the report.

Mr. FACTOR: It says here, "my associates and myself."

The WITNESS: Does it not say in the second paragraph that "my associates and myself acquired the plant, machinery, name and good will?"

By Mr. Green:

Q. Nothing is said there at all about your setting up a new company.

By Mr. MacNeil:

Q. You had not at that date acquired the right to use the name of John Inglis Company?—A. We had; but we had not the name.

By Mr. Bercovitch:

Q. There was some legal difficulty about that?—A. Yes.

Q. I think you told us that the other day?—A. Yes.

Mr. GREEN: You did not have the right to use that name.

Mr. BROWN: The offer was not accepted until October.

Mr. McGEER: Eventually they went on.

By Mr. Green:

Q. You did not have the right to use that name until a couple of months after the letter was written?—A. No, that is not correct. Do you wish me to go into the details of that name? I can give them to you, if you wish them.

Q. What date did you get the right to use it?—A. All right; let me tell you what happened about the name. When I went into the deal in the summer of 1936, part and parcel of the deal, as far as I was concerned, was the name. I was given to understand that the name would go with the assets. There was no question about that. I went to England. When I came back from England in the Fall, in the late Fall of 1936, I asked the question: What has happened about the name? The name had not yet been received and at that time there was no apparent difficulty at all; because, as a matter of fact, they had not gone after the name to get it. So I told them in January or February to get the name and to get it fast. I wanted the name. It was something I wanted. And apparently in March or just a few weeks before I sailed—it is on the record; I do not know what number the exhibit is—they wrote a letter starting the mechanics of getting the name. So when I got to England I had no reason to believe that there was any question or difficulty about the name at all; and, as a matter of fact, I did not know there was any until I got back from England. In the meantime, they had acquired the name. That is the whole thing.

Q. The report of the commissioner at page 7 says that the name was not changed to John Inglis Co., Limited, from British Canadian Engineering Company, Limited, until June 4?—A. No. But that is the mechanics of changing the company name; but they had acquired whatever the necessary rights were to change the name sometime during the month of May, I think.

By Mr. MacNeil:

Q. In July, 1936, was there any binding agreement in existence, binding you for the purchase of the assets of the John Inglis Company?—A. Not in July. In July I gave the go-ahead to Cameron, Pointon and Merritt. We were informed verbally, I believe, by the trust company that it was a deal. It was simply a question of the formalities. In July of 1936, as far as I was concerned, it was a deal; and the legal documents came afterwards.

Q. There was no binding agreement?—A. Well, there was an agreement, I think. I think the first agreement was sometime in September, the agreement between the group; and then after that the mechanics of the company organization were worked out.

Q. May I go on with this letter:—

(1) Sales, \$26,921,349.30.

(2) Net trading profit \$2,751,852.47. Our plan of operation consisted of (1) making a complete analysis of the company's sales and profits and dropping non-profitable lines whilst continuing production of all profitable existing lines.

You actually were not producing anything at the time?—A. The company was doing, under the trustee, a small repair business.

Q. You were not continuing the production of any lines?—A. We were not, and Colonel LaFleche clearly understood we were not and could not and did not propose to until we could get settled down and this thing consummated one way or the other.

Q. Then, this letter goes on:—

A new line has been added, namely the manufacture of patented steel poles—(2) completion of budgets covering the production under the following headings:—

[Major J. E. Hahn.]

1. Boilers high and low pressure tanks.
2. Engines.
3. Bridge and structural steel work.
4. Machinery.
5. Special steel production.

While the preceding was under completion, it was found necessary to give the plant a complete overhauling. In October, 1936, during this period of plant overhaul contact was established with the Department of National Defence. . . .

Now, actually you were not overhauling the plant in October, 1936, at all, were you?—A. Oh, yes.

Q. You did not acquire it until after that time?—A. Just a minute, Mr. Green. After I got interested in the plant there were three maintenance men in the plant. As soon as I became interested, and as soon as I gave the go-ahead in August, 1936, or July, whenever it was, the first thing I did was I went to the trust company and I told them that three maintenance men were not enough; I wanted more men in there, and eight men were put in there at once and the plant was given an overhaul at that time. All the machinery, all motors were turned over every month and the machinery greased and oiled and kept in condition by eight men.

Q. If you remember there was an inquiry sent by Colonel LaFleche in October in respect to the plant and he reports that on the 22nd October there were only three men in the plant?—A. That may be so; I may be out a month, but there or thereabouts before I left for England the first time I had arranged with the trust company to put eight men in instead of three.

Mr. GOLDING: You told us that when we were up there.

By Mr. Green:

Q. In October, 1936, during this period of plant overhaul, contact was established with the Department of National Defence and an investigation undertaken with regard to the manufacture of the Bren gun.

It was by common consent found very promising. . . .

What do you mean by that?—A. Well, it looked mutually interesting, the possibility of this order for us, which would mean a saving for Canada, had immediate mutual possibilities.

Q. Who else was involved in this? "...by common consent."—A. Ourselves, and the Department of National Defence.

Q. In December, 1936, an initial concrete proposal for the manufacture of the Bren gun in my plant was submitted to the Department of National Defence, since when the matter has remained under further study and negotiation. It is clear that my company can manufacture the Bren gun economically and perhaps more rapidly than any other except the Lee Enfield plant in England, which, it is known, is now overtaxed and would not be able to produce all the Bren guns required by the government of the United Kingdom. This particular statement is subject to confirmation by yourself and is offered in confidence.

Then you conclude your letter with this paragraph:—

"We have been ready to proceed with the manufacture of the Bren gun since our proposal was submitted in December, 1936."

Now, actually you had no machinery in the plant at all for the manufacture of the Bren gun? The dominion government is putting, and has had to put in the machinery to the value of over \$1,000,000.—A. Does that mean anything else but that it means we were ready to proceed with the manufacture of the

Bren gun, whatever was involved, obviously including the installation of equipment?

Q. What you meant was you were ready to turn over your empty plant to be built up to manufacture the Bren gun?—A. Our plant—

Q. That is what it really amounted to?—A. Oh, our plant in the first place was not empty; in the second place, we have had 270 men in the John Inglis plant on preparation work for the Bren gun since we took this contract. Surely we were just as much in a position to manufacture the Bren gun, or probably in a better position than most other manufacturers in Canada in view of the investigation which we had already made.

Q. Which they did not have a chance to make?—A. We were there and we made it.

Q. The letter concludes:—

I would very much appreciate being advised of the department's decision.

Yours very faithfully,

(signed) J. E. HAHN.

Then, there followed negotiations with the war office, did there not?—A. That is correct.

Q. Colonel LaFlèche working with you throughout in these negotiations?—A. Colonel LaFlèche arrived when the negotiations were at this stage: by the time that he did arrive I had already submitted my plans and costs to the war office, which had been gone over by the Enfield plant and which had been reported by the Enfield plant as sound and satisfactory. That is the point at which he arrived. I think we only went to the war office together twice. That is the only time, once in connection with the licence that I discussed the other day—

By Mr. McGeer:

Q. Do you know whether anybody else could have gone to the department of defence and got the same particulars, gone to the war office and done exactly the same thing as you did or not?—A. Well, it might have been possible, Mr. McGeer, but the fact is, again, we did it.

Q. There was nothing, so far as you know, to stop anybody who wanted to pursue the same course namely, to look at the gun, examine it, investigate its particulars and opportunities for manufacturing here, to go to the British war office and negotiate with them for the production of Bren guns in Canada?—A. None whatever.

Q. You had no monopoly on that?—A. None whatever, Mr. McGeer.

Mr. GREEN: He did, as a matter of fact.

By Mr. McGeer:

Q. What Mr. Green said, which I think is contrary to the facts, is that no one else had a chance. I know of nothing in the evidence that I have seen before the Bren gun inquiry that took place which indicates that anybody—
—A. Well, there were a number of other contractors at the war office actually at the time I was there, Canadian contractors.

By Mr. Brooks:

Q. In England?—A. In England, yes. They had the same access that I had, and I simply—

By Mr. Green:

Q. Now, Major Hahn, wait a minute. You were given instructions from the Canadian government to go and look at all the details of manufacturing the
[Major J. E. Hahn.]

Bren gun. Do you say that other people had the same opportunity? Nobody else had that.—A. That is not correct, because I was not given instructions. I asked to have facilities provided for me to do so.

Q. The government provided the facilities?—A. That is all right; I asked for them first.

By Mr. McGeer:

Q. If anybody else had asked for the same facilities, they would have got them?

Mr. GREEN: That may or may not be so. You cannot prove that they would have got them any more than I can prove that they would not.

Mr. MCPHEE: The fact that Major Hahn says that contractors were there proves it.

The WITNESS: I was interested in shells and tanks and Bren guns, and I went after the particular assistance of the type that was necessary to give me what I wanted.

By Mr. Green:

Q. You got it from the Canadian government?—A. No one suggested what I wanted, but I had to get it all. I said, I should like this and that, and I asked for it and I got it. Other contractors were there, interested in their particular things; I happen to know who they were; and what they asked for. I do not know, that was their business.

Q. Nobody was there about the Bren gun but yourself?—A. Not that I know of.

Q. But there was some question the following year about competitive tenders being called for the Bren gun. You got on the next boat and rushed over to London just as fast as you could go, didn't you?—A. Now, just a minute. That is not correct either. Let us have this straight. Ten days before this rush that you refer to, the war office were advised that I would be in England in about ten days time. I think the cable was received November 9, 1937, which stated clearly that the war office was prepared to negotiate the contract, namely with the John Inglis Co. I, as president of the company, was naturally interested to conclude these negotiations as fast as I could because delay does not help a situation of that kind; and I was anxious and waiting, and you will find on the record a number of letters stating I offered to go and was ready to go in December and was ready to go because I knew the thing could not drag indefinitely or we and the Canadian government would simply lose the order. That is all that would happen.

Q. You covered that the other day in your statement. You said: "I decided to go to England the end of January, 1938, after the question of tender was raised by the interdepartmental committee, and after further delays that I felt were seriously jeopardizing the entire situation and creating a strong possibility of the order being lost . . ." A. Would you let me finish and I will cover that as well. As I say, I was anxious to go over there and then the interdepartmental committee started to meet and to my surprise the question of tenders was interjected. To my surprise, I say, because from what knowledge I had of this particular type of thing the question of tenders, particularly in England, had not been considered feasible, and it was not in accordance with their practice; so when the question of tenders arose it was somewhat of a surprise to me and somewhat of a shock to me because after all I had negotiated this thing to this particular point; and when I had negotiated the thing for our company, and an order was available to the John Inglis Co., to be thrown open to other possible competitors was, I will say, something of a shock and something of a surprise.

Q. You did not think that anybody else should have the right to barge in?—A. Not at that particular stage. If they had started at the same time, all right, and the question of tenders had then arisen, that would have been fine, that

would have been perfectly all right. We could have had no possible objection to that; but after we had spent over nearly a year and a half on the thing and had brought the thing to the point of an order, to offer that order to our competitors was, as I say, somewhat of a surprise.

Q. Then you did rush over to England?—A. Before we come to the rushing...

Mr. FACTOR: Mr. Green likes to use picturesque language.

Mr. MCPHEE: Similar to the pushing in at the war office.

WITNESS: I will try to exercise my restraint, if I may.

By Mr. Green:

Q. Go ahead, I am sorry.—A. There are several letters on record where I asked to go to England to protect the interests of the John Inglis Co., in any event, because I knew of our competitors in England who were still hot after this contract, and right up to the very last, as a matter of fact, I wanted to get there, so a cable was sent advising England about ten days actually before I did sail, saying—the gist of it was that Major Hahn would arrive in England in about ten days time. That was sent about the 15th or thereabouts of January. Well, then, when this thing again arose from the second meeting, and in view of the cable and in view of the situation, I certainly decided to go over there immediately to conserve the situation if it could be, because I was very much afraid that the effect of the suggestion of tenders would simply terminate the whole thing right then and there, which it very nearly did.

By Mr. McGeer:

Q. As a matter of fact, from your knowledge of the thing, you knew very well if it were terminated the Birmingham Small Arms Factory would get the contract?—A. They were there right at that time trying to get that contract, when I got there, and very nearly got it.

Q. If tenders had been called for, no Canadian company would have got the contract?

By Mr. Green:

Q. I refer to page 9 of the commissioner's findings, and the last paragraph on that page reads as follows:—A. Yes.

Q. The deputy minister (but not without the subsequent approval of the committee) amended their draft cable before it was sent (exhibit 188.). Moreover, the deputy minister sent a very long cable himself at the same time to the war office (exhibit 212). Major Hahn was in Ottawa the day of the meeting, (January 24th) and was anxious to see the committee, but he said he was not called in. The deputy minister told him, he says, that the suggestion of tendering was to be continued' and Major Hahn says he "unexpectedly took boat for England"; he "went straight back to Toronto . . ."

These were your words at the Inquiry. I shall read them again:—

He "went straight back to Toronto on the 25th and sailed on January 26th" from New York for England, arriving there on the evening of February 2nd.

A. Yes.

Q. En route he sent a wireless asking for an interview with Sir Harold Brown or with someone at the war office and was notified on the morning of February 3rd that that had been done. After interviews in England with the war office, Major Hahn was back in Toronto by February 18th (exhibit 223).

Mr. FACTOR: That is correct.

[Major J. E. Hahn.]

The WITNESS: That is correct, but you understand, all that "unexpectedly" meant was that I was going anyhow. When this matter of putting it to a tender came up I simply found out when the next boat sailed, instead of waiting several more days or a week.

By Mr. Green:

Q. Does not that constitute rushing off to England?—A. I took the next boat, and I am very glad I did because there might not be a Bren gun contract in Canada if I had not.

Q. Instead of rushing you took the first boat?—A. I took the first boat, yes.

Q. Then, to get back to 1937. We were dealing with negotiations between Colonel LaFleche and yourself and the war office officials, and on June 4th Colonel LaFleche wrote a letter to Sir Harold Brown at the war office, which is exhibit 146. In that letter it is stated that there was enclosed two copies of a letter dated June 4th, 1937. Apparently he was over in England as a member of the Canadian delegation at the Imperial Conference. He says:—

Dear Sir HAROLD,—With reference to previous discussions concerning the possibility of manufacturing the Bren light machine gun in Canada, I beg leave to forward herewith two copies of a letter, dated June 4, 1937, addressed to me by Major J. E. Hahn, D.S.O., M.C., on behalf of the John Inglis Co. Limited, of Toronto, Canada. I am sending these documents to you as, presumably you would care to see the proposal at the earliest possible date. The extra copy is for the technical sub-committee if you desire to submit it.

The proposal has not yet been studied by the Department of National Defence (Canada) but many of the principles mentioned by Major Hahn in his draft agreement have already been approved in Canada.

Sincerely, yours,

(Signed) L. R. LAFLECHE.

Certainly in the negotiations with the war office you got great assistance from Colonel La Fleche?

By Mr. Factor:

Q. Does he know about this letter being sent by Colonel LaFleche to Sir Harold Brown? Do you know about this letter?—A. I do not know whether I saw this letter or not. I have an idea that I sailed before this letter was written; but I returned to Canada.

By Mr. Green:

Q. When did you return to Canada?—A. I think I sailed the end of May; I may be wrong.

Q. You charged this up for being in England until June 21?—A. All right, then, that is the answer.

Q. I would refer you to exhibit 149, which is another letter from Colonel LaFleche to Sir Harold Brown of the war office dated June 7, 1937:—

Dear Sir HAROLD,—May I express thanks for your note dated the 5th of this month. Mr. Gordon has been asked to see me to-morrow morning at 11 o'clock after which I would very much like to see you at your convenience. I shall communicate with you again as to this.

In addition to have a further word with you about the Bren gun, when I trust Major Hahn might be present, I believe it would interest you to meet Mr. W. Taylor-Bailey, the vice president and general manager of the Dominion Bridge Company Limited, of Montreal. We

spoke to him about the manufacture of guns in Canada sometime ago and, as he is in London on other business, it would please us very much if you would discuss matters with him. I could bring him down to your office at any time.

Sincerely yours,

(Signed) L. R. LAFLECHE.

Were you present at an interview with Sir Harold Brown?—A. I was present, as I said, at, I think, two interviews with Colonel LaFleche at the war office. The one was with Sir Harold Brown considerably earlier than this, and this is the one that I referred to where we discussed the licence situation with Mr. Gordon.

Q. The licence from Czechoslovakia?—A. From Czechoslovakia.

Q. Then we got into difficulty about the licence and getting the right to manufacture in a private firm. Would you refer to exhibit 153, which is a letter of June 8, 1937, from Colonel LaFleche, which was shown to the Minister of National Defence before it was dispatched. It is addressed to Vice Admiral Sir Harold Brown at the war office:—

Dear Sir HAROLD,—May I refer to the statement concerning the Bren light machine gun which was left with you this afternoon by Major J. E. Hahn, D.S.O., M.C., of Messrs. John Inglis Company Limited, Toronto, Canada.

As you already know, seven thousand Bren guns are needed to equip the Canadian forces, and that we want this equipment as quickly as it can be obtained. It would seem that all are agreed as to the necessity of setting up an additional factory. There are two obvious reasons for doing so:

- (a) the vulnerability to attack of the existing factory
and
- (b) to speed up production.

It is not considered that a single plant can turn out the guns quickly enough,—particularly in the event of an emergency. However much we in Canada may wish to obtain guns and however strongly we may feel the necessity of having a safely located additional plant, it is not considered practicable to set up a factory unless at least twelve thousand guns are to be produced therein. Should an assurance be given that at least five thousand guns would be ordered by, say, the government of the United Kingdom, the Department of National Defence would immediately recommend entering the final stage of our negotiations with Major Hahn.

I should appreciate knowing, at your early convenience, whether the war office is prepared to place an order. Definite information would greatly assist my department and much time could be saved if Major Hahn knew what to expect.

Sincerely yours,

(Sgd.) L. R. LAFLECHE.

Now, is it not fair to say, Major Hahn, that Colonel LaFleche, representing the government, and yourself were working together toward getting this contract for twelve thousand guns? The other day you left the impression, perhaps not intentionally, that you were the man who had gone to England and got the contract and that the Canadian government owed you a debt of gratitude for doing it, and so on. Actually these letters show that the department and yourself were working together for the contract.—A. No. Let us get this straight. I did not say or did not intend to infer that I did not get the assistance of the department right from the start to the finish, because I did. There is no ques-

tion about that. What I did state and what is a fact is that I went to England to start with on my own. I had no instructions or suggestions from the department at all. I went over as a contractor and manufacturer out after business. When I got there I saw the possibility, because a second source was just in the process of being considered there, and again being on the spot and again without any suggestion from the department or anyone else I initiated the negotiations that resulted in that saving.

Q. But before you went you knew very well that Canada was going to need guns for herself, which is borne out time and again in the documents?—

A. No, I did not know, Mr. Green. I knew that the weapon had been adopted as standard equipment for the Canadian army. I knew that the weapon would sooner or later either be bought in England or would be made in Canada by the government or by private manufacture. Those were the three possibilities that I knew before I left. Which one of the three into which it would ultimately resolve itself, I did not know. I saw an opportunity there to bring that business here, and I take the full credit for seizing that opportunity and initiating negotiations that resulted in that saving without any assistance or suggestion from the Canadian government. I think that is a fair statement to make; without any more assistance, I will say, than the full assistance and the fullest co-operation that the Department of National Defence gave to me as a contractor seeking business and as I imagine they would be perfectly willing and happy to give to anyone else.

By Mr. Bercovitch:

Q. That was a go-getter?—A. To anyone else.

By Mr. McGeer:

Q. You did know at that time that the amount of guns required by the Canadian government was 7,000?—A. I knew at the time in June, but Mr. Green—

Q. We are dealing with this letter in June.—A. I knew at that time.

Q. You knew that any contract from the Department of National Defence was contingent upon your securing a contract from the British war office for 5,000 guns?—A. That is correct.

Q. As a matter of fact, if you could not get that contract there was no possible chance of setting up any production in Canada?—A. That is correct.

Q. You also knew that the Canadian government were not going into the business of producing Bren guns in Canada?—A. At that time that seemed to be the case.

Q. One of these contracts was with the Canadian government and the other the British government, so that you had started negotiations with the British government for 5,000 guns to be produced in Canada before this letter was written?—A. That is correct.

By Mr. Green:

Q. Does this sum up the situation fairly; that in the fall of 1936 the Department of National Defence apparently was not sure as to whether their Bren guns would be manufactured in a government arsenal or by a private industry?—A. Or possibly purchased in England.

Q. Or possibly purchased in England. But you found out in the fall of 1936 that Canada was going to acquire in some way or other quite a large number of Bren guns?—A. I found out before I left that the gun had been adopted as standard equipment. I did not know at that time, Mr. Green, really what the Canadian requirements were. That is obvious to you because I think in the first proposal I made I suggested 10,000 instead of 12,000 guns.

Q. You were hoping from the start that you would be able to persuade the Canadian government to have the guns manufactured by private industry and by your own firm?—A. That is correct.

Q. You cooperated with the Department of National Defence with that end in view?—A. That is correct.

Q. And they cooperated with you most fully right from the start?—A. That is correct.

Q. Certainly in the summer of 1937 negotiations were carried on by Colonel LaFleche and yourself jointly? You were working together at that time?—A. I will put it this way: Let us keep this thing on the track. I was working in the interests of the John Inglis company to get the contract from the war office at that time and, if possible, from the Canadian government. Colonel LaFleche at that time was naturally interested in getting his guns, I presume, made in Canada and interested in the saving that would accrue to him if I could negotiate and consummate the English situation which at that time seemed a fairly good possibility.

Q. He was also working on the consummation of an agreement with England?—A. He was interested in it, but at that time they had reached a point where, before he ever arrived there, I was told that they were interested and it was likely they would go on.

Q. And from the start Colonel LaFleche was in favour of you getting this contract, from 1936? He was in favour of the government placing the contract with you?—A. Well, I would answer that this way: After I came back in December, 1936, after being over there for six weeks, I came back with something definite and something concrete. I do not see how he could be anything but interested.

Q. All I am simply asking you is whether that is not a fact, that Colonel LaFleche from 1936 was in favour of this contract for Bren guns going to the Inglis company?—A. I cannot say that at all. All I know is that when I came back with something definite and concrete he was certainly interested, as anyone else would have been. I did not come back with a lot of what might happen; I came back with the definite statement that the war office was interested in what I had suggested and interested in the contribution of capital expenditure which involved a large amount of money.

By Mr. McGeer:

Q. When was that?—A. December, 1936.

Q. You are aware of the fact that Captain Vanier of the High Commissioner's office advised the Department of National Defence on December 17, 1936, that the British war office requirements had been satisfied in England and that they had no assurance at all that there would be any Canadian contract? You are aware of that letter?—A. I saw that in the evidence, yes.

By Mr. Green:

Q. Major Hahn, exhibit 154 is a letter in reply to one of June 8. Exhibit 154 is dated June 10, addressed to Colonel LaFleche, and reads as follows:—

Dear Colonel LAFLECHE,—I have received your letter of 8th June relating to the proposal to manufacture the Bren light machine gun in Canada in accordance with the proposals made by Major Hahn, and asking whether the war office is prepared to place an order for at least 5,000 guns.

As you know, we have this matter under consideration, and as soon as I can obtain a decision, I will reply to your letter.

There is a postscript, as follows:—

I am so sorry I had to put you off this afternoon but I had to attend an important meeting with the Minister.

On June 14, Exhibit 156, Colonel LaFleche wrote to you in England and gave you the report, did he not? That letter reads as follows:—

[Major J. E. Hahn.]

DEAR MAJOR HAHN:—With reference to your request to be informed about the possibility of manufacturing Bren light machine guns in Canada, I can only comply with your request by enclosing herewith a copy of a secret letter I addressed to Sir Harold Brown on the 8th of this month and by quoting his reply which is dated the 10th:—

I have received your letter of 8th June relating to the proposal to manufacture Bren light machine guns in Canada in accordance with the proposals made by Major Hahn, and asking whether the war office is prepared to place an order for at least 5,000 guns.

That is the letter I have just read. It also states:—

It is understood that this communication is secret, personal and without prejudice.

You got that letter, did you?—A. That is correct, yes.

Q. Then you went to the trouble of getting permission from the Czecho-Slovakian firm to manufacture this gun in a private plant. Exhibit 157 is a letter from Colonel Vanier of the High Commissioner's office to Colonel LaFlèche, dated the 23rd of June, 1937:—

I am forwarding you herewith, copy of a war office letter No. 57/S.A./792/D.A.C./P/, dated 22nd June, with enclosure, relating to the Bren gun.

I would be grateful if you would kindly acknowledge receipt in order that I may know these papers have reached you safely.

MR. FACTOR: How many more have you got?

MR. GREEN: As the result of a meeting between Colonel LaFlèche, Deputy Minister of National Defence, Canada, and the Director of Army Contracts on the 8th instant, it was decided that the Ceskoslovenska Zbrojovka A. S., Brno, should be approached by the war office with a view to extending the agreement dated 24th May, 1935, between that firm and the Secretary of State for War for the manufacture of Bren guns to allow the Secretary of State to license the Canadian government to have the gun manufactured by a third party in Canada.

I am to state that the firm have agreed to this extension, and I am to request that you will inform the Deputy Minister of Defence accordingly.

A copy of the letter received from the Czecho-Slovakian firm is attached.

I am, Sir,

Your obedient servant,

(sgd) A. T. WIDDOWS.

MR. MCPHEE: On a point of order: I would suggest that Major Hahn be released, because he knows nothing about these letters here that Mr. Green wants to put on the record. He can very well do that when Major Hahn is not here.

By Mr. Green:

Q. You knew all about this, about getting permission from Czecho-Slovakia?—A. I was at that meeting, as I said, where it was discussed.

Q. And you knew that the Canadian Deputy Minister of Defence requested and obtained permission to have the Bren gun manufactured in your firm?—

A. No, that was not it.

Mr. FACTOR: Mr. Green may be perfectly justified in questioning along these lines, but reading all this voluminous correspondence in, between other parties, to which Major Hahn was not a part, is just about taxing the patience of this committee to the limit; at least, as one member of the committee, that is my view.

By Mr. Green:

Q. Just what do you know about the arrangements that were made for the manufacture in a private firm in Canada?—A. I know there was some question as to whether the licence (the licence, or the sub-licence—whatever it was) that Canada had from Czecho-Slovakia; there was some question as to whether that was sufficiently broad without any further addition to permit the manufacture of the Bren gun in a private company with complete government supervision as exists under our contract. To clarify that we had a discussion with Mr. Gordon, director of contracts at the war office.

Q. What do you mean by “we”?—A. Colonel LaFleche and myself; and we went over the situation and both Colonel LaFleche and Mr. Gordon thought that even as it stood it might quite properly be held to cover just such a situation, but Mr. Gordon thought that there would be no possible objection from the Czecho-Slovakian people in any event, and simply to write them, and that was what was done.

Mr. McGEER: You see, Mr. Chairman, there is no dispute in connection with the matter. We are aware that the licence was issued through the authorities with the privilege of using the licence to produce guns in, for instance, Dominion arsenals. That did not go to the point of including the privilege of manufacturing in private concerns in Canada. That matter was adjusted and it was extended, and these facts are agreed to, and nobody is disputing them.

Mr. GREEN: No, but Mr. McGeer, I am simply wanting to show that that permission which was absolutely necessary was obtained not by Major Hahn but was obtained by the defence department. Major Hahn is claiming here that he went to England and he got this contract and the government had nothing to do with it.

The WITNESS: No, I did not claim that.

Mr. GREEN: The actual picture, as I see it, is that the government and Major Hahn were working together.

Mr. McGEER: Don't you see, what you are dealing with is this, Major Hahn had gone over to England, notwithstanding what the British authorities had said, that their supplies were adequate; and then Hahn goes back and interests the British War Office in establishing a secondary supply source. I think the evidence is clear that the difficulty Sir Harold Brown had was not in getting the contract with the John Inglis Company, but in getting it through the treasury board on account of the increased cost in Canada. That was the situation.

Mr. GREEN: Of course, my submission is, that Major Hahn and the Canadian government succeeded in getting the contract.

Mr. McGEER: Let us agree on that. The fact that Major Hahn was able to induce the British to negotiate a contract with him—if he was successful in doing that, that would mean production of Bren guns in Canada.

Mr. GREEN: I say that Major Hahn and the Canadian government were able to induce the British government.

Mr. McGEER: There was no suggestion of any other proposition there until Major Hahn had apparently induced the British government to change their grounds about supply.

Mr. BERCOVITCH: And that British contract would be another Canadian contract.

[Major J. E. Hahn.]

Mr. McGEER: The record clearly shows that Hahn says that the British war office are going to do a certain thing, if the Canadian government decide to go ahead with Hahn we are prepared to make our decision along the same lines. You read that evidence carefully, and you will see that it confirms the position that was taken before the commission, and confirms it very definitely.

By Mr. Brown:

Q. Major Hahn, did you know that some time in April, about April 27, 1936, that the Canadian government had made up its mind, or had been informed that it was impossible for them to get the guns from Great Britain?—A. No, I did not.

Q. Not at the time, you heard that later, did you not?—A. I have heard it since the inquiry, yes; but I knew nothing of what preceded my visit at all.

Q. And when did you know that the department decided that the Canadian requirement of Bren guns would amount to 7,000?—A. That would be some time before I went to England the second time, Mr. Brown. I did not know it when I was there the first time. As I say, you will find in my first proposal that I only estimated on 10,000 when I put my estimate in. I think I did not know that until I went over in March or April.

Mr. BROWN: I think the time that was decided was in June, around the 3rd of June.

Mr. McGEER: But it was before that, I think, that the decision of the department was made. It simply refers to a date as early as that. I think if you will check it up you will find that the decision of the department was made some considerable time before that.

Mr. BROWN: It may have been earlier, possibly.

Mr. GREEN: Major Hahn—I won't bother reading any other documents showing what happened subsequently—

Some Hon. MEMBERS: Hear, hear.

Mr. GREEN: Government supporters are getting impatient.

Some Hon. MEMBERS: Hear, hear.

By Mr. Green:

Q. But when Colonel LaFleche and yourself came back to Canada you made repeated enquiries as to what decision had been arrived at by the British government?—A. That is right.

Q. And there is a series of letters here passing between you; for example, the letter from you of July 5th, 1937, and the reply of July 6th, 1937; and then Colonel LaFleche on different occasions cabled to England, did he not, asking them to hurry up their decision?—A. Well, according to the evidence he cabled. I would like to point out this, Mr. Green; before I left, Sir Harold Brown told me I would be notified direct or through the Department of National Defence as to what their action would be, so I naturally kept in touch, not hearing from them direct, I kept in touch with the defence department.

Q. For example, there was a cable from Colonel LaFleche to the Canadian High Commissioner on July 29th, 1936?—A. I was not familiar with those cables.

Q. And you wrote him before you went to the races down at Newport asking for some action.

Mr. McPHEE: Is that in evidence?

Mr. GREEN: Yes. That is here, do you want me to read that letter?

Mr. McGEER: Oh yes, let us have the races in.

Mr. BERCOVITCH: It will be a diversion from the Bren gun; it had a lot to do with the manufacture of the guns.

Mr. GREEN: Then the minister stated in Exhibit 167, a cable from the minister to the High Commissioner in London:—

Your 1758—this is a personal message from the minister—

Mr. FACTOR: Why read that? How will he know about that? Why read that in front of this witness?

By Mr. McGeer:

Q. Were you conversant with these letters?—A. No.

Mr. GREEN: "Your 1758 August this personal message for High Commissioner. Stop."

Mr. FACTOR: Order; Mr. Chairman, I raised an objection.

By Mr. Green:

Q. Major Hahn, you got a secret personal message from Colonel LaFleche on September 8th, 1937, which is exhibit 169, advising you that a decision was expected in a few days; did you not?—A. If it is on the record, I haven't reviewed this for quite some time.

Q. Then, the minister gave it again—on exhibit 171—

Mr. FACTOR: How does he know that?

The WITNESS: I know nothing about all that.

Mr. GREEN: I think there is this feature about these messages, Major Hahn, that they show that Canada was keeping up the pressure on the war office.

Mr. McGEER: The witnesses to be examined on that are the minister and the deputy minister.

Mr. GREEN: Is that not the situation?

Mr. BERCOVITCH: Don't answer, Major Hahn.

Mr. McGEER: Surely it is obvious that this is merely taking up time that must be taken up with the minister and the deputy minister. I mean, is there no limit to this kind of thing?

The CHAIRMAN: I think, gentlemen, we should take into consideration and co-operate to the end that Major Hahn might be released. I believe, he is anxious to get back to Toronto to-night and we have only forty minutes left.

Mr. GREEN: If I had not been interrupted so much I would have been through.

Mr. BERCOVITCH: If you had not been reading letters unnecessarily into the record we would have been through long ago.

The CHAIRMAN: May I suggest to the hon. member that he is not serious in that.

Mr. McGEER: We have all the time in the world to waste on this committee.

Mr. BERCOVITCH: I think it is a bad precedent to sit in the afternoon.

Mr. GREEN: You started it.

Mr. McGEER: At this rate we will have to have night sittings.

By Mr. Green:

Q. There were communications going to and from the department of defence to the war office, asking for an early ruling as to what would be done?—A. While agreeing to what you are reading, I had no knowledge of it.

Mr. McGEER: Now, Major Hahn, let us go back a minute—Major Hahn has been more than fair. He has told this examiner that he went to seek this contract, to open these negotiations, and he had the co-operation of the department of defence. I mean, what more can these letters show? Is there any object

[Major J. E. Hahn.]

in it? Is there any objection to our department of defence assisting one who apparently is acceptable to the British War Office to bring a contract for this Bren gun to Canada? Now, if that is objectionable, then the department of defence are to be condemned for giving co-operation to it. I think if the department of defence had failed to co-operate, to give assistance to carry on these negotiations which Hahn had under way to bring that British contract to Canada, that the department would be properly subject to condemnation.

Mr. MACNEIL: Might I refer to Exhibit No. 134 in which Dr. Skelton says:—

OTTAWA, 23rd April, 1937.

Dear Colonel LAFLECHE,—With reference to the suggestion that the High Commissioner should be asked to indicate to the government of the United Kingdom that the Canadian government would be pleased to have the government of the United Kingdom place orders for the Bren gun with the company organized by Major Hahn and his associates, I was informed by the Prime Minister after council yesterday that the question had been considered, and it was not thought advisable at present to request the government of the United Kingdom to place in Canada munitions orders of this type.

Yours sincerely,

O. D. SKELTON.

And the exhibit referred to just now by Mr. Green.

Mr. MCGEER: Quite agreed; and here was the Deputy Minister of Defence with his decision of his department that his forces should be equipped with 7,000 guns. There was no possible chance of getting supplies any place, and there was the agreement on the British contract which this man had, and that changed the picture all the way through. But in any event, I mean if this be a matter of condemnation, and it may be in the view of some members of the committee, surely the man to deal with it is the deputy minister or the minister, who are going to be called.

Mr. GREEN: Well, Major Hahn, at any rate, you did know this.

Mr. MCGEER: I think it should be a matter of congratulation.

By Mr. Green:

Q. You did know this, that a decision was finally reached in November by the department of defence that they were going to give a contract?—A. I was informed on November 10th or 11th of the contents of the cable they had received from the war office, in which the war office stated they were prepared to negotiate a contract.

Q. I wish to mention one other point with regard to your getting help from the Canadian government. When you went over on this rush trip in 1938—which you say was not a rush trip—you could not get a conference with Sir Harold Brown without having a dominion representative present. Is that right?—A. It is not quite the case. You must remember the purpose of the visit. By the time I arrived there, the war office had made up their mind that we either had to get on with the story or quit. So when I got there there was no nonsense or no monkey business. They asked me to sit down and work out the details of a contract that they were prepared to go into with us; and also, obviously—as by that time it also involved the question of terms that might or might not be acceptable to Canada—they requested that the Canadian representative sit in so that he would be fully conversant with the discussions of whatever terms were raised. I simply was put before the usual board, apparently, before whom contracts are let. There is a regular board there. Sir Reginald—I forget his name—is in charge. Apparently there is a group that meets when there is a contract involved, and the contractor is

just put over the ropes at that board; and that is exactly what happened to me.

Q. Will you look at exhibit 213. I think that cable sets out the situation very clearly. You must have known of that.

Mr. McPHEE: Mr. Chairman, I submit from the time this investigation started we have had the same thing being asked. We had Colonel Orde on the stand and he was subjected to the same sort of questioning; the same cablegrams, letters were read to him. What did he know about it? When Mr. Elliott was on the stand, the same cablegrams and the same letters were read. I submit if we are going to carry on this procedure we will be here all summer.

Mr. McGEER: Of course, I think that if Mr. Green's examination is directed to show that the Department of National Defence should not have co-operated with Major Hahn, he is free to pursue that line if he wishes to do so.

Mr. GREEN: That is not the reason I am asking those questions.

By Mr. Green:

Q. Do you see that exhibit?—A. Yes. I knew nothing about it.

Q. You knew nothing about it?—A. No.

Mr. McGEER: I do not think that is the policy of the party he represents.

Mr. FACTOR: I think, Mr. Chairman, with all due respect, you ought to pay more attention to our objections. I do not mind Mr. Green brushing us aside but I do not like this silence on your part.

The CHAIRMAN: That almost sounds as if the hon. member wishes an apology from the chair.

Mr. FACTOR: Apparently when someone raises an objection Mr. Green does not care a hoot about it. He goes on and reads the documents and you complacently sit there while he does it.

Mr. McGEER: What I should like to know from Major Hahn is what is going on in the plant now.

By Mr. Green:

Q. Major Hahn, did you know that England had to communicate—that the High Commissioner's office had to communicate with Canada to get permission for a representative to be present at that conference?—A. I knew nothing about that.

Q. You did not know anything about it?—A. No.

Mr. FACTOR: You knew he would not know anything about it before you asked the question.

Mr. GREEN: No.

Mr. McLEAN (Melfort): Are you printing all this nonsense, Mr. Chairman?

Mr. GREEN: Mr. Chairman, we have got something here that may interest the government supporters.

Mr. MacNEIL: May I ask a question before we leave that?

Mr. GREEN: Yes.

By Mr. MacNeil:

Q. At the time these conversations took place overseas, in June, or around June 8th, 1937, particularly when you received the letter from Colonel LaFleche, or a copy of his letter to Sir Harold Brown, did you have an understanding with the deputy minister that, in the event of securing a British order, you would get the contract?—A. No; because I understood that it had to go before this interdepartmental committee which I had heard about; and there was no understanding at all of any kind.

[Major J. E. Hahn.]

Q. The letter of which you got a copy said that the department was prepared to enter into the final stage of negotiations with Major Hahn?—A. That is correct. I knew just what was said by the letter.

Q. And you had every reason to anticipate you might?—A. I thought that that might naturally follow, yes.

Q. Were you aware at that time that Colonel LaFleche was urging upon the British government the placing of an order with your firm?—A. I cannot answer that. I do not know whether he even did or not. I doubt whether that would be necessary at that time. The British government, by the time that I was there the second time, before even Colonel LaFleche had arrived, had pretty well made up their minds, as far as I could gather, to go on with us if they were going on with the scheme in Canada. I was pretty well told that even before the Colonel arrived.

Q. Then there is another question. Reverting to the correspondence that was dealt with a few minutes ago and the information as to the incorporated status of your companies; was that the form in which the information was communicated to the British war office with regard to the status of your company?—A. No. The communications with the war office—I had no communication with the war office. I talked to Sir Harold Brown. When I arrived in England I saw Colonel Vannier and he asked me for certain information and I went over it with him the same as I did with Sir Harold Brown. I told him what had happened. He wanted to know the background of my experience. I think we called stenographers in at the end of it and dictated a sort of pro forma, and I told him that we were just in the process of organizing the John Inglis Company. I showed him the appraisals. I showed him what I had shown Sir Harold Brown.

Q. Did you tell him your actual investment?—A. No. We did not discuss the investment at all. I had had a good deal of experience with people coming to see me with regard to this scheme and that; and what I always do, I like to have their references, and I investigate their references. So I told Colonel Vannier and I told Sir Harold Brown when I first met them that I would prefer that they make their own investigations. I gave them my references and they made their own investigations.

By Mr. McGeer:

Q. Sir Harold Brown was not interested in what you paid for what you had to work with but what you had to work with?—A. Yes; he was interested apparently enough to find out in Canada who I was and what I represented.

Q. Whether or not you could go ahead and finance such an undertaking?—A. Yes. He made the usual commercial investigation.

By Mr. Green:

Q. I should like to ask a few questions about the amount payable to the Inglis company for the precontractual period. If you will remember, that is covered in paragraph 3 (e) 1.—A. Yes.

Q. It reads:

A sum not exceeding \$20,000 in respect of actual cost of preliminary investigation, planning and engineering services carried out by the party of the second part prior to the execution of this agreement as evidenced by vouchers or other proof in support thereof satisfactory to the party of the first part.

Based on that, you filed an account with the Department of Finance. You will find a summary of the account at page 424, in No. 14 on May 3rd, 1939.—A. 424?

Q. Yes, 424. That is a claim for \$25,171.12. Do you consider that is a proper claim under the terms of the contract?—A. If I could just find this, I should like to do so. Did you say 424?

Q. 424.—A. I have it now. That was discussed and considered, as I said before, after these negotiations had reached a stage—after the negotiations had lasted for nearly a period of a year and a half and had reached a stage where they involved this very definite capital saving for Canada. As I told you, I had no intention whatever, when I went over the first time, to put in any expenses. There was no obligation there whatever. I did not realize the time that was involved or what was going to be involved in this particular negotiation. After it had reached that stage, and after we had agreed in the contract to put in the plant—to do the engineering, the installation of this plant and the tremendous tooling task that was involved, and undertake this preparation task for two years at a sum that is absolutely a very small percentage of the sum at which ordinarily such a large engineering job is undertaken; we did that in order again to assist—I do not think I had mentioned this before—to cut down the total cost of the job, to facilitate it getting through the British treasury. So we undertook the contract on the basis that for the first two years it represents to us a very small portion of what we would be ordinarily entitled to for the engineering and installation.

Q. But you consider— —A. May I just finish so that I will have it in my mind in sequence? This is a large engineering task and installation task for which the ordinary engineering fees would be very high, would be much greater than any profit that we could possibly make of the preparation period. We did that to keep the cost down. Then we come ultimately into production; and we have undertaken a very large production at a very reasonable profit for the task that we are undertaking, and for the reason that we have undertaken—

Q. You consider— —A. May I just finish this? In view of these particular circumstances, these three circumstances—we have saved Canada half a million dollars the minute the contract is signed. There are no “ifs,” “ands” or “buts” about that. The saving is there and has been made.

Q. Any firm would have done that.—A. I beg your pardon?

Q. Any firm would have done the same thing?—A. No; that is not a fair statement to make, that any firm would have done it. We are the firm that suggested the capital saving to the war office, not any other firm. Another firm might have, but we did it.

By Mr. McGeer:

Q. And any firm would have been entitled to some compensation for that? —A. Yes.

By Mr. Green:

Q. Is this compensation for that or for what it says what it is for?—A. No. It is quite possible that I might have suggested, or any other firm might have suggested the order in Canada without suggesting Great Britain making a co-operating contribution to the job. That is just as possible and probably more likely than what I did when I saw what was necessary. We made the saving. As I say, there are three factors. We make a half a million dollars saving. We have undertaken a tremendous engineering job, probably one of the most complicated that has been undertaken in this country, at very little profit, to make possible a contract for Canada. Thirdly, we have undertaken production, one of the most complicated and difficult production jobs that has even been undertaken in this country at a very reasonable profit. So, surely in the name of common sense—

Q. That profit is \$450,000?—A. It may be \$450,000.

Mr. BERCOVITCH: Please, Mr. Green, let him finish.

The WITNESS: So surely in the face of these three things, we are at least entitled to our cost. It is not a question of profit. Surely we are entitled to

[Major J. E. Hahn.]

our expenses that were involved in these negotiations. That is what this expense is.

By Mr. Green:

Q. You consider that this is a proper claim under your contract?—A. I do not know whether it is a claim in its present form. This claim is a result again of letters that are on the record, where the department had asked us to send down a claim to be used as a basis of discussion. That is why this claim was sent in in this form. It is new. They wanted it. We asked them in what form the claim should be sent down, if there was any particular form they had, and they said, “no”—that is all on the record—“make up your claim and we will start from there.” And this claim was sent out.

Q. Has the government refused to pay you anything under this paragraph?—A. No. We have withdrawn the claim and have not yet re-submitted the claim.

By Mr. Brooks:

Q. Was this claim shown on your books as a credit to the company—this claim of \$20,000?—A. We considered it as a bill receivable.

Q. That is what the auditors found?—A. That is right. We consider it an expense that we ultimately feel we can and should recover from the government.

Q. That is exactly it.

By Mr. Green:

Q. You are re-submitting it to the government?—A. Yes, we are; certainly.

By Mr. McGeer:

Q. This claim as it was submitted was not paid by the Department of National Defence? It has not been paid?—A. It has not been paid, no.

Q. And they have informed you that in this form it is not acceptable?—A. That is correct; and, as I say, it was sent in in this form at their suggestion—to send it in the form as it is to start with and get our claim together, and to use that as a basis of discussion after they saw what we proposed to claim and charge for.

By Mr. Green:

Q. You think that you are going to get the full \$20,000 involved?—A. We have shown here there are over \$20,000 involved, and we feel that we are entitled to the expenses that we incurred.

Q. Now, Major Hahn, the expenses you claim were made up in this way: for instance if you run over that claim you find that there are \$9,255 for your time alone.—A. How much?

Q. \$9,255 for your time.

Mr. McPHEE: Very little compensation for saving Canada \$590,000.

By Mr. Green:

Q. What do you say about that?—A. Well, I consider it is a very reasonable charge that I have made for what I have accomplished.

Q. Based on, apparently, \$50 a day?—A. I still consider that an exceptionally reasonable charge for what was involved and what I did.

Q. In addition to that there are \$6,722 for your personal expenses.

Mr. FACTOR: What is the use of questioning him about something which has been withdrawn?

The WITNESS: Well, I accept your figure here on the face of it. It sounds to me like time and expenses, but it doesn't matter, whatever they are. I would be very glad at any time—Canada's share of this \$20,000 is \$13,000; Great Britain would pay about \$6,000. Any time I can get any one or any

negotiations where I spend \$13,000 and save \$500,000, I should like you to show it to me; I would jump at it very, very fast.

By Mr. Green:

Q. That is all for work done before the contract was signed?—A. But resulted in the saving. It was done before the contract was signed; if the contract had not been signed this expense could not have been—we would not expect to have received payment.

By Mr. Brooks:

Q. Is that your original basis for the claim, Major Hahn?—A. My original basis, Mr. Brooks, is this: it is the customary procedure in England and the customary procedure in the United States. It is just a logical thing to pay the pre-contractual expenses, depending upon the circumstances. It is not a profit; it is an expense, and if we were tendering it would be in as a cost in any event. It is a cost that we have incurred.

Q. Are you claiming it because you say you saved Canada \$500,000 or are you claiming it because you feel that you have given services for it?—A. I feel I have given service for it.

Q. Other than this claim of saving \$500,000?—A. The services; I simply point out the services I have given have resulted in the concrete saving of \$500,000. In the face of that—

Q. It is for the services you are claiming the figure?—A. Yes. In the face of that I do not see how the question can be raised as to the amount.

By Mr. Green:

Q. For example, you are claiming \$3,600, which is at the rate of \$50 a day for six days a week during your trip to England from March 30 to June 21, 1937, and yet you have told us to-day that you went over there on private business.—A. I have already told you several times that I have withdrawn the account and changed it. That is my evidence before the commissioner.

Mr. FACTOR: You told us the other day that you will have to change it because part of the trip was private business.

By Mr. Green:

Q. Then on your first trip to England you charge us again for seven weeks at \$300 per week, \$2,100, plus \$1,322.26 expenses. Do you think that is all justifiable?—A. I think everything there is not only justifiable, but extremely moderate, in view of what my services have accomplished. I think it is put down at a very reasonable figure because of what I have accomplished. What I have accomplished saves more than I can tell you—

Q. What it means is that you would be receiving a salary from the government of over \$9,200 for what work you did in connection with the contract during the period from October 9, 1936 to March 18, 1938.

Mr. McLEAN: No.

The WITNESS: You mean at the rate of—

By Mr. Green:

Q. No, if you collect \$9,255 from the government for your time during—

Mr. GOLDING: And expenses.

By Mr. Green:

Q. Without expenses. In addition to that there are \$6,722 for expenses for these fifteen or sixteen odd months.—A. Let me ask this, Mr. Green. Let us put it as a fee, if you like. Would a fee of that amount be an unreasonable amount for services that have saved \$500,000? Is that unreasonable?

Q. You either have based your claim on having made a contract or not.

[Major J. E. Hahn.]

Mr. McGEER: He has based it on the three. He says he has based it on the three. Major Hahn, you have to be very careful in this committee. When the government makes \$500,000 the committee proposes to forget that. That is not to be taken into consideration at all.

The WITNESS: Then, while we are on this question of fees, may I say this: I was reading the record the other day and I saw something as to the reasonableness of fees that I have charged. You will note on page 412 that I made nine trips to Ottawa before I knew anything of any investigation or anything else. My expenses for these nine trips were \$230.77. So I do not think that anyone can say that I have been extravagant in my expenses. This is a cost plus contract. But before I knew of the situation at all here, my expenses are based on a cost of less than \$30 a day including my railway fares.

By Mr. Green:

Q. Your statement, and Mr. McGeer's apparently, is that contractors are entitled to get pre-contractual expenses based on what they presumably or possibly may save the government. I think that is an entirely new proposition.

Mr. McGEER: Now, Mr. Chairman, he is putting words in my mouth as well as in the witness's mouth, which he cannot do and get away with. I never made any such proposition at all. We had evidence before us that the British war office considered for engineering expenses a very much greater sum than this \$20,000. It was agreed by the British war office and the department of defence and the interdepartmental committee that a sum for pre-contractual expenses of \$20,000 should be allowed, but no sum was to be paid that was not approved by the department of defence. The account was presented to the department of defence, refused by it and my friend is examining on that to-day. Now, whether or not there should be a portion of that expense of \$20,000 paid to you depends on what amount is going to be approved by the department of defence.

The WITNESS: Yes.

By Mr. McGeer:

Q. And it is not within your power to say how much you are going to collect no matter what bills you present?—A. That is correct.

Q. Because the final payment of this amount has to be determined by the department of defence and the department of defence alone?—A. That is correct, yes.

Q. That is the situation?

Mr. BROOKS: The department of defence has made no absolute refusal.

By Mr. McGeer:

Q. But they have refused this item, have they not?—A. We have withdrawn the account, Mr. McGeer. We sent the account down in this shape, as I say, following letters where they asked us to start off with what might be in the form which we considered should be sent in. They had no suggestion to make.

Q. As I understand the evidence of the department before the committee, that account was refused and withdrawn for resubmission. Whether or not they are going to pay any account depends upon their determination, not yours. That is, the department of defence, under the contract has the right to say whether they will approve any account that you submit or not. That is in the contract.—A. Well, our position, Mr. McGeer, is that the contract says what it does say, and we will make our claim, and it is up to the government to pay or refuse it. That is the position from start to finish.

By Mr. Golding:

Q. May I just ask Major Hahn this question. In carrying out all the business that you are carrying out you have your employees to whom you pay so much a day? I am talking of your commercial end.—A. Yes.

Q. And on the contract work you may have to charge double what you pay them to carry your overhead and everything else?—A. Yes.

Q. Your salary is \$10,000, is not that a fact?—A. That is correct.

Q. Which would be at the rate of \$25 per day or something like that. On the same basis you would have to charge for your time in thinking of your overhead and everything else?—A. That is correct.

Q. So that your fee here is not unreasonable on the very same basis that you carry on your business right through your plant?—A. That is correct.

By Mr. Green:

Q. At the same time you were making these arrangements about the opening of the commercial division of the plant, and you certainly were not spending all your time on the Bren gun, were you?—A. No, but I spent all my time on the Bren guns in the time that was charged in this particular account. This only applies, and you notice the only time that is on here is the time spent on the Bren gun, not on commercial.

Q. You are really claiming this \$9,200 odd for a very small portion of these months between October 9, 1936 and March 18, 1938. You are claiming \$50 a day?—A. \$50 a day.

By Mr. McGeer:

Q. Prior to this matter being agreed to by the Canadian government, was the offset amount of \$20,000 agreed to as being reasonable by the British war office?—A. That is correct.

Q. And as a matter of fact it was agreed to in London, the British war office approved of it as to the amount, and it was agreed to by the department of defence?—A. They considered that amount reasonable and were agreeable to it, yes.

By Mr. Green:

Q. Also included in that amount are legal fees of \$7,256.39. On what grounds do you justify a claim to have this paid by the government?—A. Mr. Green, can I tell you any more than I have told you before? We have simply set out the account. We have put in things that we consider are chargeable and it is up to the government to say whether or not they are chargeable.

By Mr. Factor:

Q. The government asked you to put in a new statement?—A. Yes.

By Mr. Green:

Q. What statement are you putting in in substitution? What change is being made in the basis of the claim?—A. Mr. Green, all I can say is I have not even considered the statement; I have not had time to even think of it, and when I get the time to sit down and deal with it we will make out another statement; we will submit it to them and then what changes or alterations will be in it, I have not the vaguest idea at this time.

Q. You consider that you should get \$20,000?—A. I consider I should get \$20,000, yes.

By Mr. Golding:

Q. The contract provides for that?—A. And the contract provides for that, yes.

By Mr. McGeer:

Q. I do not think you can say that, because the contract does not provide for that. Is it not—A. If it is acceptable.

Q. The contract provides for an amount of \$20,000.—A. That is correct.

[Major J. E. Hahn.]

Q. But there is a provision in that which says the amount has to be approved by the department of defence?—A. Well, that applies.

Q. If they refuse to approve of anything you do not get a cent of that?—A. That is correct.

By Mr. Green:

Q. You consider you should get \$20,000?—A. We consider that our claims are for \$20,000, legitimate claims, and we are going to put them forward on that basis. That is all I can say at this time. There is another thing I should like to say. I should like to say that you cannot take this particular negotiation and this particular thing and simply say it is the same as any other contract, because it is not. It is a totally different thing, a totally new thing; it has accomplished totally different things than have been accomplished in contracts before, and this entire situation should rightly be viewed from the standpoint of what it is, and from the standpoint of the entire transaction.

Mr. GOLDING: Mr. Chairman, may I ask Major Hahn this question?

By Mr. Golding:

Q. What do you estimate the profits would be? It is a 10 per cent profit, is it not on whatever you put in—

Mr. McGEER: No, it is not that at all. According to Mr. Elliott's evidence it is 4· something.

The WITNESS: The profit is not anywhere near 10 per cent; it is only 5 per cent.

By Mr. Golding:

Q. What I was thinking about was the bill that you are putting in now. You would get complete payment of this if it was accepted?—A. No, we would only get up to \$20,000. Our expenses, I think, as shown here, amount to about \$26,000. I have not looked at this in months. We would only be entitled to them, if they are right, up to \$20,000.

By Mr. Green:

Q. What about the tripods and bipods? Apparently they are not covered by the gun.—A. Yes, the bipods are part of the guns.

Q. Are they one of the component parts?—A. Yes; the bipod is actually on the gun.

By Mr. Brooks:

Q. Attached to the gun?—A. Attached to the gun.

Q. The tripod is not?—A. The tripod is not.

By Mr. Green:

Q. How are the tripods to be obtained?—A. I have not the faintest idea.

Q. There has been no discussion about that?—A. No.

By Mr. MacNeil:

Q. To what extent are you making extra magazines?—A. To what extent?

Q. Yes.—A. Making 25 magazines per gun.

Q. Is that included in the spare and component parts group of the unit?—

A. Part of the gun, spare and component parts for each particular gun.

Q. It is always understood that you would be required to supply the extra magazines?—A. That is correct, yes.

The CHAIRMAN: Gentlemen, have you finished with this witness?

Mr. MACNEIL: Yes.

Mr. FACTOR: Have you finished, Mr. Green?

The CHAIRMAN: Have you finished with the witness, Mr. Green?

Mr. GREEN: There are a lot of other questions I might ask.

The CHAIRMAN: We will release him subject to recall.

What is your wish for the next meeting? Do you wish the steering committee to meet to-morrow and decide on the order of procedure or shall we adjourn until to-morrow afternoon or to-morrow morning?

Mr. GREEN: We have a caucus to-morrow morning, Mr. Chairman. I wonder if you could have a meeting of the steering committee to-morrow and possibly have a meeting Thursday?

The CHAIRMAN: Yes.

Mr. ISNOR: Might I inquire as to whether Colonel Drew is being called before this committee?

The CHAIRMAN: That is why I was suggesting that the steering committee meet to-morrow afternoon. Could we have a meeting of the steering committee to-morrow afternoon at 4 o'clock?

Mr. BERCOVITCH: Make it 5 o'clock to-morrow afternoon.

The CHAIRMAN: Then at 5 o'clock to-morrow afternoon the steering committee will meet in Room 429.

Mr. MCPHEE: At what time?

The CHAIRMAN: 5 o'clock.

Mr. MCPHEE: Why not make it 3 o'clock?

The CHAIRMAN: You can arrange that and we will meet any time that suits both of you.

(At 6 p.m. the committee adjourned sine die.)

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Canada Public Accounts, Standing Committee
1939

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

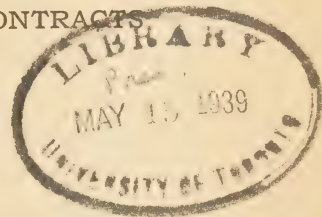
MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

THE BREN MACHINE GUN

AND OTHER ARMAMENT CONTRACTS

No. 18



THURSDAY, MAY 11, 1939

WITNESS:

G. W. Gillespie, Esq., John Inglis Co. Limited

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, May 11, 1939.

The Standing Committee on Public Accounts met at 11.30 a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Anderson, Bercovitch, Brooks, Brown, Factor, Ferland, Fleming, Fraser, Golding, Green, Homuth, Kennedy, MacInnis, MacNeil, McDonald (*Pontiac*), McGeer, McPhee, Marshall, Rickard, Stirling, Taylor (*Norfolk*), Thauvette, Wood.

In attendance: Mr. G. W. Gillespie, John Inglis Co. Limited, Toronto, Ontario; Lieut. M. P. Jolley, Department of National Defence.

The Chairman reported that the sub-committee on agenda had decided, at a meeting held on May 10, to call Mr. Gillespie and Lieut. Jolley this morning and that the next witness following them be Major-General LaFleche, Deputy Minister, Department of National Defence.

Mr. Gillespie was called, heard and questioned.

At 1 p.m. the Committee adjourned until 4 p.m. this day.

AFTERNOON SITTING

At 4 o'clock p.m. the Committee resumed, the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Anderson, Bercovitch, Brooks, Brown, Factor, Fraser, Golding, Green, Homuth, Isnor, MacInnis, MacNeil, McCann, McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Marshall, Purdy, Stirling.

In attendance: Messrs. Gillespie and Jolley.

Examination of Mr. Gillespie was concluded.

At 5.20 p.m. the Committee adjourned to the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

May 11, 1939.

The Standing Committee on Public Accounts met at 11.30 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum. We have Mr. Gillespie from the John Inglis company here this morning. Shall we proceed with the witness; unless some of the members feel that we should have a report in connection with the meeting of the subcommittee yesterday. It was decided at the meeting of the subcommittee yesterday afternoon that we would have Mr. Gillespie and Mr. Jolley here this morning, and it would be left then to the call of the chair just as soon as the deputy minister is available from his estimates, that he should then be called, and after the deputy minister the minister if needed. May I add that yesterday's meeting of the sub-committee was not final in any way and if there are any other members of this committee who would like to have witnesses called will they please indicate their desire to the sub-committee.

Mr. MACNEIL: There was no decision reached that that would constitute all the witnesses that should be heard. As I understand it, it depends on the evidence to be given by the deputy minister as to what further witnesses may be needed.

The CHAIRMAN: It was thought by the sub-committee that there might not be any need for other witnesses, except that in the event of anything developing in the evidence that would necessitate the calling of other witnesses, we would do so.

Mr. GREEN: You are not intending to have only these two further witnesses, are you?

Mr. MACNEIL: There was no limitation.

The CHAIRMAN: No limitation at all.

Mr. GREEN: The defence estimates may not be completed for several days, and I would suggest that we go ahead with other witnesses pending the release of General LaFleche from duty in the house. There are different other witnesses who can be called yet, I should think; for example, I think we should have General McNaughton, and General Ashton and General Anderson.

Mr. BERCOVITCH: Why don't you give in a list of the names of witnesses whom you would like to have called, Mr. Green?

Mr. McGEER: And then that could be discussed by the steering committee.

The CHAIRMAN: Suppose you give me a list of the names of people you would like to have called, Mr. Green, and we will decide after this meeting when to sit again.

Mr. GREEN: We could meet to-morrow.

The CHAIRMAN: Whom do you suggest calling?

Mr. McGEER: We might decide on that in the subcommittee?

The CHAIRMAN: Yes. Gentlemen, Mr. Gillespie is here.

GEORGE WILLIAM GILLESPIE, Chief Engineer, John Inglis Co., Limited, Toronto, called:—

By Mr. McGeer:

Q. Mr. Gillespie, would you mind stating to the committee your experience in the manufacture of small arms?—A. Well, I have been dealing with small arms for the last—practically right through my life, all but about three years.

Q. With whom?—A. First of all with the Henry Rifle Barrel Company in London. Then when I left there there was a three year lapse, going about to different firms, then I went on with the government at the Royal Small Arms factory, and I have been there ever since.

Q. What is the date at which you went to the Royal Small Arms factory?—A. It was in October of 1899.

Q. And you have been with the British government?—A. —ever since.

Q. Would you tell us in what capacities you have been engaged?—A. In what capacities; I started as a workman, a setter-up mechanic; and in charge of shop; and from that in charge of the planning department and the rate-fixing department, when I left England.

Q. During the great war did you have any experience in the emergency production of small arms?—A. Yes, I was sent over to the States by the British government and looked at the small arms production wherever they were in difficulties.

Q. I see. What firms did you co-operate with in the United States during what years?—A. 1916 and 1917.

Q. Who were you with during 1916 and 1917 when you were in the States?—A. I was attached to the Ministry of Munitions in New York and wherever they sent me I went. I was on with the Savage Company, and the Remington Arms at Irion, New York, the Winchester Repeating Arms; then with another section of the Remington people at Philadelphia—Eddystone; and then I went to Indiana and set up work with—I forget the name of the company now; and then to Louisville, Kentucky—I forget the name of the firm there.

Q. Well now, what was your job when you were visiting these firms, which I take it from the names you gave us were producing small arms in very large quantities for the American army service?—A. No, for the British.

Q. They were producing for the British at that time?—A. Yes, they gradually changed over to the American when they entered the war.

Q. I see, and in what capacity were you functioning?—A. Advisor to them; whenever they got stuck in production or anything I would be sent into the plant to look at it and see what was the matter.

By Mr. Green:

Q. What type of arms were they producing?—A. Rifles and Lewis guns.

Mr. BERCOVITCH: Machine guns.

By Mr. Green:

Q. And Enfield rifles?—A. Enfield rifles of the 1914 pattern.

By Mr. McGeer:

Q. Then I figure that your position was that of an expert?—A. Yes, an expert on manufacturing.

Q. And expert on manufacturing?—A. Yes.

Q. And you advised and assisted these firms in the United States?—A. Yes.

Q. To improve their production power, I take it?—A. That was it, yes.

Q. Now, after your experience in the United States what happened to you then?—A. Well, things went pretty flat after a while, after the war was over

[Mr. G. W. Gillespie.]

and I went back to Enfield, and then, of course, as time went on the Bren gun came along.

Q. Did you continue in the United States after 1916 and 1917?—A. No, I went back to England.

Q. You went back to England in 1917?—A. Yes.

Q. And what were you doing there?—A. I went back into the planning department; in fact, that was just before the end of the war and I was manager over a group of shops.

Q. What did you call it, the planning department?—A. The planning department, planning out the methods of manufacture and tooling and things of that sort.

Q. Well, the planning department was a department of the British War Ministry?—A. Yes.

Q. And it had to do with the supervision of the production of small arms for the British army service during the war?—A. Yes.

Q. And you were a member of the planning department?—A. The planning department at the Royal Small Arms factory.

By Mr. Green:

Q. At Enfield?—A. At Enfield.

By Mr. McGeer:

Q. Had you anything to do with any other plants outside of Enfield?—A. Not after the war was over, no.

Q. During the war period?—A. Yes, I went to Vickers, the biggest plant there; and I went down to Birmingham on what they called the national factory No. 1, a place taken over by the government; and there were one or two firms in London that we did business with, that had business with us.

Q. Would it be correct to say that you acted as technical expert for the British War Ministry for firms producing arms?—A. Producing small arms.

Q. After you returned from the United States where you had been performing a similar service?—A. Yes.

Q. And you have had experience in both Great Britain and the United States in the production of arms during the emergency period of the last war, and since then you have been in the employ of the British government until you came to Canada; is that right?—A. Yes.

By Mr. Brooks:

Q. You were one of a great many technical experts, of course?—A. Well, there were not a lot of us—as far as the government was concerned, there were not a lot on that job. I had charge of the department. I had ten or twelve men under me who were all doing similar work in the home factory and were occasionally sent out from my department.

By Mr. McGeer:

Q. Since then you have been in connection with the Enfield plant?—A. In the Enfield plant.

Q. Carrying on?—A. Yes, the various small arms equipment that has been developed since the war.

Q. Now, what was your experience with the Bren gun?—A. The Bren gun—well, first of all my department had the original ZB to criticize from the manufacturing point of view.

Q. That was the gun submitted to you from Czecho-Slovakia?—A. Yes.

By Hon. Mr. Stirling:

Q. What year would that be?—A. The years pass so fast I can't remember, but it was around about five or six years ago.

By Mr. McGeer:

Q. The ZB gun came to you for technical observation and report as to manufacture?—A. As to manufacture, yes.

Q. What happened then?—A. Well then, at a later period, at about somewhere between—about three years ago—I went down to Czecho-Slovakia to have a look at their methods, the way they were doing it.

Q. Yes?—A. And, of course, I was picking out any parts that would be all right for us at Enfield, to see whether through the way they were doing it we could develop on the same line.

Q. I see, and you made a report of your investigations in Czecho-Slovakia?—A. Yes.

Q. Where was the factory in Czecho-Slovakia?—A. At Brno.

Q. And following your report on their methods of production there what happened in England?—A. Well, as time went on we got the order to proceed and lay out on the method of manufacture, including tools and gauges for the job.

Q. Who had supervision and direction of the laying out of the plant and equipment for the Bren gun in England?—A. That came under my department.

Q. Were you at the head of the department at that time?—A. Yes.

Q. Then, at the time the production of Bren guns was finally determined upon by the British War Ministry that came under your immediate supervision?—A. That is so, yes.

Q. How far did you carry that program?—A. Until I left to come out to Canada.

Q. Well, I mean, in what state of development was the production in England?—A. Oh, they were in production.

Q. They were in production?—A. Yes.

Q. Then you had developed the plant?—A. Yes.

Q. You directed all phases of operation?—A. Yes.

Q. You selected and installed the machinery, tools, equipment, gauges and all that goes with it, and brought the plant into the state of actual production?—A. That is so, sir.

By Mr. Green:

Q. When did you come to Canada?—A. Oh, last year.

Q. In August of 1938?—A. Yes.

By Mr. McGeer:

Q. What number of guns was being produced in England, what was the rate of production under their program when you left; have you any idea? That may be a question that I should not ask, and any question that I ask which you think should not be answered, don't hesitate to say so?—A. I would not like to answer that question.

Q. In any event, production was on?—A. Production was on, and they were up to schedule.

By Mr. Factor:

Q. Was that for the improved gun?—A. Oh, yes, the latest gun?

Q. The latest gun?—A. Yes.

[Mr. G. W. Gillespie.]

Mr. McGEER: What I said was, the gun as finally determined upon. I think there has been some evidence before the committee that there were certain changes and improvements.

By Mr. Brooks:

Q. That is the same gun you are producing in Canada today?—A. That is so, sir, yes.

By Mr. McGeer:

Q. Did you meet Major Hahn in Enfield?—A. No.

Q. Under what circumstances did you come to Canada?—A. I was asked by our authorities whether I would like to come over here on the Bren gun job, and they asked me to consider it, I considered it and I said yes, I don't mind.

Q. Was that as the result of the request of the officials, whoever they were, of the British War Ministry in the Enfield plant?—A. I understand it came down from the war office to the superintendent of our factory, a request to supply somebody.

Q. And the superintendent of your factory came to you and asked you if you would consider going to Canada, to do what?—A. To assist in the manufacture of the gun.

Q. That is, to lay out the plant?—A. Help lay out the plant, yes.

Q. And to determine the selection of machinery and tools?—A. Trying to get them on the right track, that was it.

Q. You were to do in Canada the same thing that you did in England before the production of the Bren gun there?—A. That is so, sir.

Q. Is that a correct statement?—A. Yes.

By Mr. McGeer:

Q. What was the probable date of your retirement from the service in England?—A. The probable date—

Q. Yes.—A. That date is past now, this year.

Q. And the date of your retirement was known to you and to the officials of the Enfield plant where you were employed?—A. Oh, yes, I know the date I was born, and there is a certain age at which you have to retire.

Q. As a matter of fact, the officials agreed that if you would come here, that the time you put in here would count as though you were still in England on your retirement allowance?—A. No.

Q. What was the arrangement?—A. They arranged that I should leave the service before my time.

Q. What did you lose as a result of that?—A. Not much.

Q. I see; that is, they agreed you should retire and take on this work and get your retiring allowance as of that date?—A. Yes, but I want you to realize that they might have kept me there to age 65 if they had wanted to. I do not know who it was said I should be released for the purpose of coming over here on this job.

Q. Well, the release was of such a nature apparently that the British War Office felt that your services here were to some extent of value to the Empire at large if not specifically to the United Kingdom?—A. Yes.

Q. That is correct?—A. Yes.

By Mr. Brooks:

Q. Who is paying your salary at the present time, the British War Office?—A. I am sure I could not tell you that. No, not the British War Office; I know they are not paying my salary.

By Mr. Green:

Q. You get your cheques anyway?—A. My salary is being paid out here, I get it every month or two; but as to who is paying it, I know nothing about that at all, it does not bother me, as long as I get it.

By Mr. McGeer:

Q. In any event, you are getting the retiring allowance from the British War Office?—A. Yes.

Q. The British War Office took no objection to your getting your retiring allowance and your pay for your work here, from whomever you get it?—A. No.

Q. Would you mind telling me when you came to Canada?—A. In August of last year.

Q. In August of last year; and what have you been doing in Canada since your arrival?—A. Well, gradually progressing with the selection of plants and advising on which was the best type of stuff, machinery; and criticizing the methods of any proposals that should be made, or changes to suit the perhaps a little more modern machinery than we had at Enfield.

Q. And that work is being done in Toronto?—A. In Toronto, yes.

Q. In the John Inglis Company plant?—A. In the John Inglis Company plant.

Q. And you are working with the Department of Defence of Canada; I mean, with the officials of the Department of National Defence?—A. No, I think I am working for the John Inglis Company, the production side of it.

Q. Do you have any co-operation or collaboration from anybody in the Department of Defence of Canada?—A. Oh yes, occasionally we have somebody come there. Mr. Jolley comes down now and again and things are talked over.

By Mr. Green:

Q. Mr. Jolley is an inspector of some kind?—A. Inspector, yes. We come very closely in contact with the inspection department. That was our habit in England. They don't like many alterations without having them in agreement.

Q. But Mr. Jolley's visits are merely inspection trips?—A. Inspection visits, and business about the plant as well.

By Mr. McGeer:

Q. And do you get the sanction of the Department of Defence officials there to go ahead with your work program?—A. I expect so, I don't touch that section of it at all. That is I take it what the Major and the other people are doing. I am there to advise them about their difficulties on the job. All the clerical business and that sort of stuff is done by the officials of the company.

Q. You are conversant with the terms of the contract between the British War Office and the Department of National Defence for Canada and the John Inglis company?—A. No, I do not say that I am.

Q. You know something about the details of production?—A. I certainly know there is a schedule with the John Inglis company, that they have got to produce so many guns within a certain time, and we have got to keep our promises, and I think we shall.

Q. One of your duties in connection with the John Inglis Company is to get that plant into production in accordance with the terms of its contract with the British War Office and the Canadian government?—A. Yes.

Q. What do you say as to the lay-out?—A. Well, in the main it is following the British method.

[Mr. G. W. Gillespie.]

Q. Well, was it a suitable plant in which to start this kind of development, or otherwise?—A. Well, there is a certain amount of machinery that has been used that came from the Ross rifle machinery. That is being used, it is being put in repair and it is quite suitable for part of the production of components, and there is a lot of machinery that has been used in the commercial section for purposes of repairing machinery and getting things on the go like that.

Q. To put it rather frankly to you, Mr. Gillespie, one of the suggestions is that this plant was a broken down boiler factory and not suited at all to the development of the production of small arms. What have you got to say as to that?

Mr. HOMUTH: Mr. Chairman, I do not think that Mr. Gillespie can answer a question like that. He came last August to that plant, after the new building had been constructed and after a certain amount of work had been done on it. I do not see how Mr. Gillespie can intelligently answer that question "yes" or "no".

Mr. BERCOVITCH: He can answer of his own knowledge from the time he came until the present moment, whether he found the plant a suitable one for the manufacture of these guns.

Mr. BROOKS: That has been his job, to make the guns.

WITNESS: For the actual manufacture of guns, there was very little of the old plant which was suitable. But they had a good start for doing quite a lot of the preparation work. For instance, they have got a very nice pattern shop there in which all their patterns for the fixtures, tools and gauges or other metals which they will require, have been made up. That is quite an asset from the commercial side.

By Mr. McGeer:

Q. It is in that plant where you produce the stocks and wooden parts?—A. The wooden parts for a start—the main one is not being made in the first, I think it is, one or two thousand; is not being made by the John Inglis Co. But that shop will be used when they start producing the butts later on. It is the butt portion which is the main thing in that.

By Mr. Green:

Q. For the actual manufacture of the Bren gun there was nothing at all in the Inglis plant when you came there?—A. There was the Ross plant which was being repaired, quite a number of machines; and that was all being done over on the commercial side.

Q. Apart from that there was nothing else?

Mr. HOMUTH: When you arrived there?

Mr. McGEER: Let him answer the question.

The WITNESS: I am trying to think. I believe there are one or two odd machines that have been put over into the gun section.

Mr. McGEER: As a matter of fact, Mr. Gillespie—

Mr. GREEN: I wonder if you would let me finish?

By Mr. Green:

Q. Just one or two odd machines?—A. Yes.

Q. And the Ross rifle machinery was machinery of the Canadian government?—A. Yes.

By Mr. McGeer:

Q. As a matter of fact, the Ross rifle machinery had to be reconditioned?—A. It had to be reconditioned.

Q. And it was reconditioned in the commercial plant?—A. In the commercial plant; that is right.

Q. And that commercial plant is an up to date and efficient machine shop capable of doing that work?—A. Yes.

Q. And there were some tools made, as I understand it, in the commercial plant as well, were there not?—A. Yes.

By Mr. Green:

Q. The bulk of the tools are made outside of the Inglis factory altogether, are they not?—A. Yes. They have been made by the trade in general around about Canada here.

By Mr. Brooks:

Q. What percentage would you say, Mr. Gillespie?—A. That is difficult to say. It changes daily. As our own tool room has got into production, there is less going out. I could not give you the percentage. I have no idea.

By Mr. Green:

Q. To date, most of the tools have been made outside of the Inglis plant?—A. Yes.

By Mr. Homuth:

Q. When you arrived last August at the Inglis plant, was the Ross rifle machinery there then?—A. Yes.

Q. And it was being reconditioned?—A. Yes; they were just starting on it then.

Q. If at that time someone had written a letter and said that that plant was capable of turning out Bren machine guns, what would you say to that?

Mr. FACTOR: Who wrote that letter?

Mr. McGEER: There was no such letter ever written.

The WITNESS: I am afraid I was going to be rude. I would say he would be a fool.

By Mr. Homuth:

Q. What would you say to that?—A. I would say it was impossible to make the Bren gun in the Ross plant, if that is what you want me to say. That is correct.

By Mr. McGeer:

Q. As a matter of fact, what was done in the John Inglis plant in the way of developing the means of producing the Bren gun was practically the same thing that had to be done in developing the production of the Bren gun in Enfield?—A. Yes. We had to have a portion of new machinery, but we were in a lot better position in England than they were in the Ross plant here, because we had a rifle plant that was existing there. They stopped making rifles and went on with the Bren gun and quite a lot of it was used.

By Mr. Green:

Q. You are having to build up this plant from the very foundation, are you not?—A. Yes.

By Mr. Factor:

Q. At Enfield you had to install complete new sets of tools and gauges?—A. New sets of tools and gauges, yes.

[Mr. G. W. Gillespie.]

By Mr. Brooks:

Q. They change periodically?—A. They change with the armaments, yes.

By Mr. McGeer:

Q. Knowing the production of Bren guns and small arms and speaking of other than a factory engaged in that particular work—that is, small arms production—the same thing would have to be done in any commercial plant?—A. Yes.

Q. The same thing that has been done in the John Inglis plant?—A. Yes.

By Mr. Bercovitch:

Q. For instance, take the motor industry: if they went into the manufacture of the Bren gun, they would have to build it up?—A. Their stuff would not be of any use.

By Mr. McGeer:

Q. Or the Canada Steel Car Company?—A. I do not know what they would do.

By Mr. Green:

Q. You have not examined the plants of these other leading precision steel firms in Canada so you do not know?—A. No, I do not know. I have only been to one. I have been to Buffalo and seen General Motors there.

Mr. BERCOVITCH: That is good enough.

By Mr. Green:

Q. What about the Dominion Arsenal? Suppose we had started to manufacture in the Dominion Arsenal; what would have been the position then?

Mr. FACTOR: Do you mean at Windsor?

The WITNESS: In the Dominion Arsenal to make Bren guns?

By Mr. Green:

Q. Yes?—A. You would have had the same plant that the John Inglis Co., have got. That is all there was left, as I understand it. Is that it?

Q. You mean we would have had the Ross rifle machinery?—A. If you had had the Ross rifle running, it would certainly have been an asset.

Q. It would have been easier to get into production than it is going to be in the Inglis company?—A. I would not like to say that. It all depends. A little experience and that sort of thing has got to come into it. If it was standing idle for twenty years, I would say it was a pretty difficult proposition.

By Mr. McGeer:

Q. As a matter of fact, you do know that all the machinery and equipment for the Ross rifle—that is, all that could be salvaged of the Ross rifle machinery for the John Inglis Co.,—was brought down and placed where there were facilities for reconditioning it and putting it into operation?—A. Yes.

Q. Would it have been any easier to have done the same job some place else?—A. I should not like to say that without seeing it.

By Mr. MacNeil:

Q. Have you been at the Dominion Arsenal at Quebec?—A. No.

By Mr. Bercovitch:

Q. Even at Enfield they required a complete new set of tools and gauges for the production of the Bren gun and 50 per cent of new machinery?

By Mr. Green:

Q. That is according to your evidence before?—A. Yes. Well, I should say that is right.

By Mr. MacNeil:

Q. You would not say a complete new set of tools, would you?—A. Yes. Every gun—I might mention that fact here, that all the fixtures, tools and gauges for rifle work are stored away; if they should be called upon suddenly to produce rifles, they are in a position to do so.

By Mr. McGeer:

Q. You came to Canada and got in touch with the officials and the men employed by the John Inglis Co?—A. Yes.

Q. And you proceeded to work with them to bring about production under the terms of the contract with the British war office and the Canadian government?—A. Yes.

Q. What would you say as to the situation from the point of view of efficiency in so far as they had gone when you arrived?—A. Well, as far as they had gone when I arrived, I found that the staff there had been very carefully selected and that the people that had made the selection of, say, all their draftsmen and people that were going to take charge of the shops and all that sort of thing—they studied the job very well and they had made a very efficient selection.

By Mr. Green:

Q. Mr. Gillespie, how many—

By Mr. McGeer:

Q. Just a minute, Mr. Green. Would you say, Mr. Gillespie, that the personnel that had been selected and put in charge of the operations was competent to fulfil the production requirements to satisfy these two contracts?—A. Yes, they would; they will.

By Mr. Green:

Q. Mr. Gillespie, how many employees were there in the Bren gun division of the Inglis plant when you came to Canada in August, 1938?—A. Well, I should say there might have been—you mean, doing work in the factory?

Q. In the Bren gun division as distinguished from the commercial division?—A. Including the staff?

Q. Yes.—A. Somewhere about twenty or thirty.

Q. About twenty or thirty?—A. Yes.

Q. How would that be divided? That is, what types of jobs would they be working at?—A. There would be men on machine repairs; there would be draftsmen and then there would be the supervision.

Q. But when you came to Canada in August, 1938, the total staff of the Bren gun division of the Inglis company was between twenty and thirty?—A. I am making a guess at that. Yes, I should say it was somewhere around about that. I may be a bit wrong; I may be twenty out; but I should say that is around about right.

By Mr. McGeer:

Q. Did that include workmen?—A. Including which?

Q. Was that including workmen?—A. Yes, workmen. Just a minute. What about the building and all of that? I do not know how much of that is included.

[Mr. G. W. Gillespie.]

By Mr. Green:

Q. Approximately how many were there in the commercial division at that time?—A. I am afraid I cannot tell you that. I never used to poke my nose in that place very much. I had quite enough in my own end.

By Mr. Brooks:

Q. Were these men working principally on the Ross rifle equipment when you came in August?—A. Yes, that was on the go; that was under repair at that date.

By Mr. Bercovitch:

Q. To use the language you used before the Davis commission, Mr. Gillespie, you said that the people who were handling the work are quick on the up take?—A. Yes.

Q. And you said "I think they will be able to produce the work all right; I have no fear in that direction at all"?—A. That still stands to-day.

By Mr. Green:

Q. They are good Canadian workmen. There is no doubt about that.—A. Oh, yes.

Mr. McGEER: We are glad to hear that now; but we want something more than that.

Mr. GREEN: Well, Mr. Gillespie—

Mr. McGEER: Just a minute. If I might, I should like to complete my examination, I was asking a series of questions. If you will wait until I am through, I should be very glad. I should like to complete my examination. We cannot all examine the same witness at the same time.

Mr. GREEN: No. But you want to do a one-man job.

Mr. McGEER: No. You will have all the time you want.

Mr. GREEN: Go ahead.

Mr. McGEER: We cannot do it all together.

Mr. GREEN: Go ahead.

Mr. McGEER: I do not know how to examine a witness in duet form.

Mr. GREEN: I admit that.

Mr. McGEER: If you do, I do not.

By Mr. McGeer:

Q. Have you found any occasion to recommend a change in the personnel in charge of these operations since you arrived in Canada?—A. No.

Q. The plant has expanded since you arrived?—A. Yes.

Q. And the staff has steadily increased?—A. Yes.

Q. Taking the program of development to bring about a production of the kind contemplated for these contracts, what do you say as to the efficiency demonstrated in the matter of the time element in getting on towards production?—A. Well, that certainly has been pretty good.

Q. I see.—A. Yes, that has been very good.

Q. When you say "very good" may I remind you that you said before the Davis commission that it was 100 per cent?—A. Yes. Well, I think I can still state that to-day.

Q. I see.—A. The people there are very efficient, that are running the job.

Q. The men are efficient?—A. Yes, and the organizers, that is, the chiefs of the factory.

Q. The man in charge of the general organization up there is Major J. E. Hahn, is it not?—A. Yes.

Q. He is president of the company?—A. Yes, he is president of the company.

Q. He is taking a direct personal interest in the development of that particular work?—A. Yes.

Q. And under him—

Mr. GREEN: \$6,000 worth of interest.

Mr. McGEER: That is a nice thing for my friend to say. I think it is in line with the type of pillorying that the men who are trying to do this job are being submitted to all the way through. But what we are here to find out if we can, Mr. Chairman, is as to whether or not they are competent and are doing an efficient job and fulfilling the terms of this contract. We are just as anxious to know, Mr. Chairman, if they are not as if they are.

Mr. BROOKS: It is their loss, if they are not. Of course, that is obvious.

Mr. McGEER: The charge has been made over and over again to the public, Mr. Chairman, that the men engaged in this work are not competent at all.

Mr. HOMUTH: No, no. There was nothing of the kind ever stated by any one in the house.

Mr. BERCOVITCH: Let us put an admission on the record that they are.

Mr. HOMUTH: No one ever questioned their ability to turn out the guns. It is not a question of turning out the guns. It is a question of the cost to the government for turning them out.

Mr. McGEER: It is the first thing that was said, Mr. Chairman, in the Drew article, in the charges and evidence that was given before the Davis commission and on the floor of the house; time and time again it has been stated that this man Hahn was not a manufacturer but that he was a promoter.

Mr. HOMUTH: Quite. And so he is.

Mr. McGEER: All right. You make the charge. Now we have the witness here who can say whether, in the light of all his experience, Hahn who was in charge of all this work is doing the thing efficiently.

Mr. HOMUTH: He will have to say no, because Hahn is not making the gun.

Mr. McGEER: We will deal with that later.

Mr. MACINNIS: He is employed by him. He is not going to criticize his boss.

Mr. McGEER: He is here to tell the truth.

Mr. BROOKS: There is another point in the same connection. We have had it put out that there are going to be a great many rejections. This man says it is 100 per cent. How are you going to get rejections?

Mr. McGEER: He did not say any such thing. He said in the development, setting up and organization of the plant their efficiency was 100 per cent.

Mr. BROOKS: Yes; and you claim—

Mr. McGEER: But even with 100 per cent efficiency, you do get rejections, do you not, Mr. Gillespie?

The WITNESS: Yes.

Mr. McGEER: Of course you do. Let us proceed with this.

Mr. GREEN: On that point of rejections—

Mr. McGEER: We will come to that.

Mr. GREEN: Mr. McGeer cannot throw these things out and then shut us off—just leave it without giving us a chance of chasing it down.

Mr. FACTOR: Mr. Chairman, may I suggest that Mr. McGeer complete his examination? Then Mr. Green or the other counsel can cross-examine.

[Mr. G. W. Gillespie.]

Mr. GREEN: What do you mean by counsel?

Mr. FACTOR: That is the only way to do it; I mean, cross-examine the witness. That is your privilege.

Mr. BROOKS: We are examining the witness.

Mr. FACTOR: Let Mr. McGeer complete his line of questioning.

Mr. BROOKS: His examination.

By Mr. McGeer:

Q. We have got as far as the set-up, that is the preliminary organization of the installation of the plant and equipment. We have got from you that that is going on in a satisfactory and efficient basis?—A. Yes; and I think it will meet the schedule all right.

Q. Mr. Gillespie, when you come to select the machinery and equipment for this particular kind of work, what are the factors that govern the purchase of that type of equipment? You are conversant, I take it, with the machines that have been purchased?—A. Yes. Well, having in mind my own experience in that sort of thing, there are certain types of machines which, to all appearances, might look alike to the public eye; but when you have had a good deal of experience on that class of work, you know the type of machine that is required; there are little movements in it that are more efficient and quicker.

Q. I presume from your experience that your advice on the machines to be installed and the sources of their supply has been taken; is that correct?—A. Yes.

Q. We had a list of machines presented here. I thought we were going to examine Major Jolley this morning and I had prepared to examine him, but I was not prepared for this witness. We have that list here.

Mr. FACTOR: Page 221.

The CHAIRMAN: Here it is.

By Mr. McGeer:

Q. In any event, we have a list that has been prepared by the Department of National Defence, and a summary of it. You might show that to the witness, Mr. Clerk? The point is that the machines purchased in Canada had a value of \$55,000—that is, without duty and taxes; in England \$333,949; in the United States, \$278,961; and others, non-British, \$20,216. The question of course that we should like to have answered is why all these machines were not purchased in Canada, why they were not all purchased in the British Empire and why they were purchased in the United States and other non-British countries?—A. Well, regarding Canada itself, there are very few firms that have produced any rifle or small arm machinery. Then when you come to England and the United States, they had been doing that for a good many years.

Q. Yes?—A. The firms that are in those two countries.

Q. Yes?—A. And the non-British stuff is machinery in the main for the tool room which has been developed for doing certain kinds of work, which are not developed by the other countries.

Q. I will put it to you plainly, and this ought to end it. If these machines could have been purchased in Canada or in Great Britain and deliveries could have been secured, would there have been any machines purchased outside of Canada or the British Empire?

Mr. BROWN: He would not know that. That is a matter of policy for the company.

Mr. McGEER: No, pardon me. I said to him, "Have these guns not been purchased on your advice, as to the machines and sources of supply?" His answer to me was, "Yes." So I am examining in this witness the man who advises on the machines to be bought and the sources of supply.

Mr. BROWN: I should like you to ask the question again.

By Mr. McGeer:

Q. You understood that, did you not, Mr. Gillespie?—A. Yes.

Q. And I am correct in saying that you are the officer, the technical officer, who advises as to the machines and sources of supply?—A. Yes. As far as I am concerned, I do not care whether they are made in Germany; if it is a better machine than you can get anywhere else, that is the one I want.

Mr. BERCOVITCH: Hear, hear.

By Mr. Brooks:

Q. Do you advise on the purchase of all machines?—A. I give that advice, as to which I consider the best one. The next consideration is who can deliver it quickest, and that sometimes controls it. We cannot afford to wait forever.

By Mr. Homuth:

Q. Are you in a position to say that none of the machines that were purchased outside of Canada could have been produced in Canada?—A. Well, I can only take the tenders for that.

Q. Tenders for the machines? In other words, when you went to purchase machines you had tenders submitted by various firms?—A. Yes.

Q. For the supplying of those machines?—A. Yes.

Q. You had tenders from Canadian firms for the supplying of those machines?—A. Yes.

Mr. FACTOR: He already told us there were no Canadian manufacturers that could supply all the machines that were purchased from the United States and Great Britain.

The WITNESS: I will not say the Canadian manufacturers cannot make machinery; I will say this; that it was my job to pick out the best machine. It did not matter to me who it was.

By Mr. Brooks:

Q. You were familiar with the purchase of machines in England?—A. Yes.

Q. You were familiar with the purchase of machines in the United States?—A. Yes.

Q. You were more acquainted with these machines that had been purchased in these two countries than you would be with machines that might have been purchased in Canada?—A. When it comes to the United States, no; but England, I do pretty well know all the makes there.

Q. Naturally, you would want to get the machines that you knew best and were most familiar with personally?—A. Yes, but it was quite an eye-opener to me to find that the United States had developed the way they had with small arms machinery. They have got some wonderful stuff.

By Mr. Golding:

Q. The delivery would be a very important factor.—A. The delivery, yes.

By Mr. McGeer:

Q. I want to come back to Mr. Homuth's proposition. What he said to you was this: That there were tenders from Canadian firms?—A. Yes.

Q. Indicating that there were some machines produced in Canada upon which Canadian firms could tender?—A. Yes.

Q. Now, is there any instance that you know of where there was a supply of Canadian machines available to you, where the opportunity to purchase

[Mr. G. W. Gillespie.]

Canadian machines had been ignored and you had purchased outside of Canada where you could have purchased in Canada?—A. Oh, no.

By Mr. Brown:

Q. What experience did you have in dealing with Canadian firms?—A. Well, their tenders came in and they came down to the factory and the whole questions were talked over. Everybody was treated alike and—

Q. Yes, but what—

Mr. BERCOVITCH: Wait until he gets through with his answer.

Mr. GREEN: He has no right to interfere.

Mr. BERCOVITCH: I have a right. Surely when a question is put we expect a full answer to that question. You cannot interrupt him in the middle of his answer and ask him another question. We will never get anywhere like that.

Mr. BROOKS: It has been done time and again.

Mr. BERCOVITCH: We are not allowed to do that in our courts. I know I do not do it.

The CHAIRMAN: Put your question, Mr. Brown.

By Mr. Brown:

Q. You have had practically no experience up until now in dealing with Canadian manufacturers?—A. Well, I do not think that is quite fair. My experience has been machines of the world. We have had them in the small arms factory from Germany, we have had them from France; we have not had any from Canada.

Q. That is what I mean.—A. That does not come into it at all. I always tried to get the machines and never the place that they came from.

Q. But you have had very little experience in dealing with Canadian manufacturers in the manufacture of such machines?

Mr. GOLDING: The reason being that they have not made the machines.

Mr. BROWN: That is the point. He does not know what they do or do not do.

The WITNESS: Wherever tenders came in from Canadian firms they were all treated fairly on the same basis as the others.

By Mr. Homuth:

Q. Mr. Gillespie, the cost of the machine would play a part in it?—A. That might from the government's side but not from mine. As far as I was concerned I wanted to get hold of the best machines.

Q. But you did not pass definitely on what tenders were being accepted, did you?—A. Not definitely, no; only advised.

Q. On the question, for instance of milling machines,— —A. Yes.

Q. You purchased some milling machines in Canada?—A. Yes, there are some milling machines being purchased in Canada.

Q. And you purchased a goodly number in the United States?—A. Yes.

Q. The delivery would have some bearing?—A. It would have a bearing on that.

Q. In the purchase of these machines, whether in Canada or in the United States, after the tender had been accepted, then were these machines all ready for shipment or did many of them have to be made?—A. A number of them have to be made.

By Mr. Brown:

Q. Did you make a special effort to get Canadian machinery?—A. Believe me, sir, even the empire preference, when it comes to a question of selecting the machine, I have to drop that out of my mind as we want the best.

Q. You make no particular effort— —A. I will not say that we did not make any particular effort. Human nature does that for you a little bit. You say, "Well there is such a little bit of difference between these, we will give that country or somebody else preference." But when it comes to the question of whether a machine is good enough or not, it does not matter about the country to me.

By Mr. Homuth:

Q. You came here in August, last year?—A. Yes.

Q. On the 22nd of May, 1937, that is a year or fourteen months before you came to Canada, a letter was written to Colonel Lafleche, Deputy Minister of National Defence by Major Hahn—

Mr. McGEER: What is that exhibit?

Mr. HOMUTH: Exhibit 138. The last two paragraphs read:—

It is clear that my company can manufacture the Bren gun economically and perhaps more rapidly than any other except the Lee Enfield plant in England, which, it is known, is now over-taxed and will not be able to produce all the Bren guns required by the government of the United Kingdom. This particular statement is subject to confirmation by yourself and is offered in confidence.

We have been ready to proceed with the manufacture of the Bren guns since our proposal was submitted in December, 1936.

What would you say regarding that last sentence—"We have been ready to proceed with the manufacture of the Bren gun since our proposal was submitted in December, 1936"?—A. I am not in a position to criticize that. This is 1938. I knew nothing about it prior to that.

By Mr. Green:

Q. Mr. Gillespie, you came to Canada from England in August, 1938?—A. Yes.

Q. And when you reached Toronto, what did you find in the Bren gun division of the plant? Was it not simply an empty plant in so far as the Bren gun division was concerned. It is true there was a commercial side, but as far as the ordnance side was concerned there was just a building?—A. There was a big shop there and there had been a small extension put on it and it was all fairly cleaned up.

Q. Well, the Bren gun division of the plant was empty, was it not?

By Mr. Brooks:

Q. Mr. Gillespie has already answered that question. He said when he came here the Ross rifle machinery which was being overhauled was practically the only machinery that could be used for the manufacture of Bren guns.—A. That is so.

By Mr. Green:

Q. As far as the ordnance division was concerned, you had an empty building?—A. Yes, but I do know this, and of course that did not come into the manufacture of the gun at all as far as I was concerned. Our office was quite a long piece away; we were near the front gate. I never used to go walking down there, but a lot of work had been going on. I do know that.

Q. In the commercial division?—A. In putting that shop, which now contains the Bren plant, into good condition and getting it—well, putting it straight so that it would be the kind of shop to produce that work in.

Q. In the building which was to be the Bren gun division there was no plant or equipment of any kind when you arrived?—A. I should imagine that is right.

[Mr. G. W. Gillespie.]

Q. You say there were only 20 or 30 employees, counting everybody, connected with the ordnance division?—A. Counting everybody connected with the ordnance division, yes.

Q. Were there any small arms experts other than yourself there when you arrived in August, 1938?—A. I never met any, only Mr. Jolley.

Q. But the Inglis company had no other arms expert at all when you arrived in August, 1938?—A. Yes, there is one on their staff who put a good many years in at the Birmingham Small Arms Company.

Q. What was his position?—A. Mr. Gazey is his name. He is one of the three who are generally organizing the plant. I do not know what they call him.

Q. He had worked in an armament factory years before?—A. Yes, he worked with the Birmingham Small Arms Company.

Q. Is he one of the men who have been sent over to take a course in gun manufacturing in England?—A. Yes, he went over with Mr. McLachlan and Mr. Ainsworth.

By Mr. Brooks:

Q. He was not an authority on the Bren gun?—A. Not an authority on the Bren gun.

Q. You were the only authority on the Bren gun manufacture?—A. Yes. Mr. Gazey was not on the long rifle before the short rifle came along.

By Mr. Green:

Q. Are you still the only small arms expert in the Inglis plant?—A. In the Inglis plant I think I am right in saying "Yes" to that.

Q. The other men there are simply learning the business?—A. There are quite a number of men who have been picked up. Some of them worked in the Birmingham Small Arms, some of them at Vickers, and others have worked at ordnance factories in the States. They are trying their level best to get hold of men who have had some experience in that business.

Q. But you are the only expert?—A. Expert, yes.

Q. How many employees are there in the ordnance division now?—A. I can only give you an approximation on that. I should imagine—I will say roughly—somewhere between 150 and 200.

Q. What is the position of Mr. Ainsworth in the plant?—A. General supervising, seeing that everything is going all right, figuring out all the snags and keeping hot on the trail with the work. That is what he is doing.

By Mr. McGeer:

Q. In the light of the experience you have had with other men, how well is he doing that job?—A. Very well.

MR. GREEN: Mr. Chairman, Mr. McGeer objected to my interrupting him and I would like him to keep quiet now.

By Mr. Green:

Q. What is Mr. McLachlan's position?—A. Mr. McLachlan is on the general organization of the plant.

Q. Neither one of them is an arms man?—A. I do not think they have been in armament work before. But I will say this about them, they are very efficient and very quick on the uptake, and they do know, when they are told, whether they are on the right track or not.

Q. Are you really here just temporarily on loan from the British war office?—A. Oh, no, I do not go back to them because old age keeps creeping on.

Q. In Great Britain they make the Bren gun in a government plant at Enfield?—A. Yes, sir.

Q. Are they making it in any other government plant?—A. No, sir.

Q. What about other armaments in England? What other armaments are manufactured in government plants?—A. You are putting a big one up to me. They make some armaments in England. There is heavy artillery, tanks and shells and all sorts of things. Roughly.

Q. Roughly speaking, the government makes at least a portion of each of its requirements in each of these armaments?—A. Oh, yes. That is the policy at home, that they do make some themselves.

Q. The policy is for the government to make at least a portion of all its requirements?—A. Yes, I think that is about right, taking it in general, you know.

Q. Is the Inglis plant in Toronto capable of manufacturing rifles?—A. Certainly.

Q. Tanks?—A. No. What are you referring to now, the commercial division or the gun division?

Q. Well either?—A. Either, well, the commercial division I should say could do—they could do tank work very comfortably. I do not know about the whole of it, mind you. There would be some of it that they could do, on the big work. They have quite an efficient plant there to-day for all the plate work that is required on the tanks, they could construct all the big parts and put them together; and I should say they could do everything with the exception of the electrical work required and possibly the engines.

Q. What about anti-aircraft guns?—A. Anti-aircraft guns—up to the small bore, that is, half-inch, the Bren plant could be used for that.

By Mr. Brooks:

Q. How about the new English twenty-five pounder gun?—A. When you come to the stand and all the equipment on it, the mountings and that sort of thing, that could be done by the John Inglis company in its commercial plant; but when it comes to the action, and the gun itself, going onto big gun work, you could not do that in the Bren plant. It might assist on small components, but it could not do a big percentage of it.

Q. What about the commercial division, could it manufacture properly?—A. Such things as mounting and carriages, yes; I think that would be quite suitable for them.

Q. What about the gun itself?—A. They could not touch the barrel. They might do parts of the action, but when it comes to the barrel that is quite a special job.

Mr. BERCOVITCH: You mean heavy cannon.

By Mr. Green:

Q. The twenty-five pounder bolt action, which is a light gun?—A. Twenty-five pounder—what is the bore.

Mr. BROOKS: It replaces the eighteen pounder.

The WITNESS: That would not be small arms or light machine guns in any case.

By Mr. Green:

Q. The commercial division could not do that?—A. They could not do the barrel part of it anyway.

Q. What about bombs?—A. Well, bombs; they ought to be able to make bombs, yes.

Q. What about shells?—A. In the commercial division I should think, yes. They have a number of very good lathes there, they might have to buy the forgings.

[Mr. G. W. Gillespie.]

Q. You are still working on the installation of the machinery in the Bren gun division?—A. Yes.

Q. When will the installation of the machinery to make the Bren gun be completed?—A. Well, I am hoping it will all come along in time to meet the required schedule.

Q. When we were at the plant in Toronto there were no machines there, except some of the Ross rifle machinery that had been repaired; that is right, isn't it?

Mr. FACTOR: Now there are lots of others.

The WITNESS: I should imagine if you were to go down there now you would find a few more machines. They are gradually rolling in now. That sort of thing is coming along gradually.

By Mr. Green:

Q. Have you any idea how many months or years it will be before that machinery will be completely installed?—A. I think I may say it will not be years, it may only be months.

Q. After the machinery is installed how long will it take to produce the first gun?—A. I don't know. We are all striving to get the guns out to the time that the government have asked us to.

Q. Under the government contract you don't have to produce the first batch of guns until the 1st of April, 1941?—A. I think that is about right, yes.

Q. And, could you give us any idea when the first gun, when you expect the first gun to be produced?—A. I would rather not say that. I will say that we are doing our level best and I think we shall keep to our schedule.

By Mr. McGeer:

Q. Are you to your schedule now?—A. Yes.

Q. Is there any reason for believing you won't keep your schedule?—A. No reason at all.

By Mr. Green:

Q. Now, Mr. Chairman, if Mr. McGeer will just hold his horses a minute—

Mr. FACTOR: He is just trying to help you.

Mr. GREEN: Well, I tried to help him but he wouldn't allow me to.

Mr. FACTOR: But you see, you were not helping him, you were hurting him.

By Mr. Green:

Q. What is the condition in the United States with regard to the manufacture of machine guns; are they manufactured in government plants or private plants?—A. I could not tell you.

Mr. BERCOVITCH: Ask him, what are they doing in Germany?

By Mr. Green:

Q. Well, what are they doing in Germany?—A. Having a Hell of a time.

Mr. GREEN: Just like us in this committee.

By Mr. Green:

Q. When you say that the Bren gun plant would be capable of manufacturing Enfield rifles you mean with the same machinery as is used for the manufacture of Bren guns?—A. Yes, sir.

Q. Without any additional machinery?—A. I am not saying that. You are tying it down rather fine; there are always special operations on everything,

but only a very small percentage of machinery would be required for that; in the main you could make the rifle in the Bren gun plant.

Q. Now, with respect to the machinery going into the Bren division; is that purchased by the government; is that a fact or not?—A. I imagine so, I don't bother myself with that.

Mr. BERCOVITCH: If you would allow me to ask a question?

Mr. GREEN: Go ahead.

By Mr. Bercovitch:

Q. Mr. Gillespie, even at Enfield, before they manufactured any Bren guns there they had to install special machinery, didn't they?—A. They had to install a large part of the machinery, yes.

Q. A large part of the machinery; and are there any other plants in the Empire that manufacture Bren guns that you know of?—A. No.

By Mr. Green:

Q. How about Australia? The government there are manufacturing these Bren guns in their own factory?—A. Not yet.

Q. They are preparing to?—A. Yes.

Mr. BERCOVITCH: They are proceeding just as they are in Canada.

By Mr. Green:

Q. The only difference is that in Australia it is a government plant?—A. Yes.

Mr. BERCOVITCH: But even there they had to put in special machinery before they could proceed with the manufacture of the gun.

Mr. GREEN: Quite.

The WITNESS: I can make a reply to that, regarding Australia; although they have manufactured small arms and machine guns in Australia they found it necessary to send two of their people over for two years to Enfield.

By Mr. Green:

Q. For special training?—A. For special training.

Q. We have had to send people to Enfield also?—A. Yes.

Q. We have people over there now?—A. Yes.

Q. From the Inglis plant?—A. Yes.

Q. And there are to be people sent over all the time. When these come back, others are to go over; is that not right?—A. Oh, no.

Q. No?—A. No.

By Mr. McGeer:

Q. As a matter of fact, the British war office thought it advisable to send you to Czechoslovakia to find out what they are doing there?—A. That is right.

By Mr. Green:

Q. There has been some question in the committee about tripods. Apparently no provision is being made for them?—A. I know nothing about that.

Q. You do not know about that?—A. I do not know who is making them or what is happening about that.

Q. Are they manufactured in England?—A. They are manufactured in England.

Q. They produce tripods there?—A. They produce tripods in England, yes.

Q. At the Enfield plant?—A. No.

Q. They are made outside?—A. They are made outside.

[Mr. G. W. Gillespie.]

Mr. McGEER: I should like to keep the record straight, if I may. As I read the contract, it is dated March 3, 1938. The date of deliveries is set out in exhibit D of the schedule to the contract. It reads:

"Schedule of deliveries from date of execution and delivery of the attached agreement:—

24th-36th month inclusive..	1,000 guns
37th-48th month "	3,000 guns
49th-60th month "	6,000 guns
61st-64th month "	2,000 guns."

As I read that contract, delivery will be called for to commence on the 24th month after the execution of the agreement.

Mr. GREEN: Mr. McGeer is attempting to straighten the record presumably on my behalf. We have all read the contract before, and all the contract calls for is delivery of a certain number of guns at some time during the year from the 1st of April, 1940 to the 1st of April, 1941. In other words, these guns do not have to be delivered until the last of that year, which would throw it into 1941. That is what I said and that is what Mr. Gillespie agreed to.

Mr. McGEER: No, what you said to the witness was a very different thing. The contract calls for delivery of 1,000 guns over a period of 12 months. What you said was that there was no delivery required until 1941.

Mr. GREEN: That is true.

Mr. McGEER: Obviously if you can presume that in some miraculous way this factory can produce all the guns at the very end of this twelve months' period,—which is a patent absurdity, I submit,—then of course that will be correct. But does it not naturally flow from this actual operation—and I am asking you as a practical witness, Mr. Gillespie—that to get 1,000 guns by the end of the 36th month after the execution of the contract, there must be a flow of guns over the preceding year, so that the actual delivery of the guns under this contract will commence—

Mr. HOMUTH: No, not "will"; "may."

Mr. McGEER: Well, it must. I am submitting it to him as a practical man, that it will have to commence at the commencement of the year of production.

The WITNESS: Yes.

By Mr. McGeer:

Q. Do you contemplate being in production within twenty-four months after the date of the execution of the contract?—A. What is the date of the execution of the contract?

Q. March, 1938. That would be April.

Mr. GREEN: March 31st.

By Mr. McGeer:

Q. It will be April, 1940—two years.—A. Yes. We aim at being in production around about that time, and I think we are going to do it; and it will be a steady growth until we get up, to meet the demands at the end of the next period, whatever it is.

Q. You tell us now from the schedule, that if your schedule carries through,—which you expect it to do—you will be in production within that twenty-four months period?—A. It looks very much like it.

Q. If you achieve that, what would you say as to the success of getting production in that period of time as compared with other operations of a

similar nature which you know of? In other words, is this a good job or what? For instance, how long has it taken Australia to get into production? Do you know?—A. Well, I am afraid I do not know that.

Q. How does it compare with getting Enfield into production? You do know that?—A. Well, it compares very well with what Enfield did, yes.

Q. Favourably or unfavourably? I mean, we want it clear.—A. Favourably.

By Mr. Homuth:

Q. Mr. Gillespie, is it the intention of the Inglis company to make all the parts of the gun in that plant or will some of the component parts be purchased outside?—A. Some of the component parts will be purchased outside.

Q. You do not know where the tripods are going to be purchased?—A. No; I have no idea at all.

By Mr. Green:

Q. What parts are to be purchased outside, Mr. Gillespie? We have understood throughout that the Inglis company was going to make the guns and the component parts complete.—A. You have got a very good company, I understand, in this country which makes springs. There are a number of springs in the gun.

Q. And all those springs are being purchased from this other company?—A. Yes, if they can produce them all right, I suppose.

Q. Which company is that?—A. I do not know. I could not tell you who they are.

Q. What other component parts are to be purchased outside the factory?—A. Forgings for the guns. They are all going to be purchased.

Q. Are there any other of the component parts that come from outside?—A. No. I think in the course of time they will be making all of them themselves. There are certain components which I would rather not state that are being made in England to assist the first output for I do not know whether it is the Canadian contract or the British contract; but when that first 1,000 is done, then the John Inglis Co. will be making all the rest with the exception of such things as these springs and forgings.

Q. But in the first year of production other component parts are to be bought from England?

Mr. GOLDING: Some.

The WITNESS: Some, yes.

Mr. McGEER: There was just one matter I should like to clear up before this session of the committee adjourns, and it is in connection with a letter of May 22nd, written by Major J. E. Hahn to Lt.-Col. LaFleche, Deputy Minister of National Defence. Mr. Homuth read part of that letter; but in order to have a clear understanding of what that means, I think another section should be referred to.

The letter says:—

In October, 1936, during this period of plant overhaul contact was established with the Department of National Defence and an investigation undertaken with regard to the manufacture of the Bren gun.

In that concrete proposal which was submitted to the Department of Defence it was there indicated that it would be necessary to install the machinery and equipment to build the Bren gun. Would you suggest that there would be any misrepresentation in the subsequent paragraph of that letter:—

[Mr. G. W. Gillespie.]

We have been ready to proceed with the manufacture of the Bren gun since our proposal was submitted in December, 1936. I would very much appreciate being advised of the department's decision.

—A. Certainly that is a pretty broad statement. He has got to start from the commencement and it certainly takes time to get your plant and fixtures and tools together.

Mr. GREEN: Well, the letter should have said, we happen to own an empty plant in Toronto.

Mr. McGEER: Yes, a broken-down old boiler factory.

The CHAIRMAN: Gentlemen, it is one o'clock; shall we meet at four o'clock this afternoon?

Mr. McGEER: I think we had better sit this afternoon.

Mr. GREEN: If we sit this afternoon I suggest that we only finish with hearing the evidence of the witness now before us.

The committee adjourned at 1.05 p.m. to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: All right, gentlemen, proceed, we have a quorum.

GEORGE WILLIAM GILLESPIE, recalled.

By Mr. McGeer:

Q. In connection with the purchase of machinery that we were dealing with before the noon time adjournment, do I understand that wherever it is possible tenders for machinery which is being purchased are being called for?

—A. Yes.

Q. To what extent does that apply to the machinery that is being installed in the plant now?—A. They are putting out tenders to get machinery. To what are you referring?

Q. I presume that some of the machinery is patented and supplied by specific firms. Is it all subject to tender?—A. It is all subject to tender, as far as I know. I would not like to say definitely, but as far as I know.

Q. And the tenders are advertised in the usual way?—A. Yes.

Q. And all Canadian firms, having the facilities for making the equipment or for supplying the equipment— —A. That is how I understand it.

Q. —have opportunity for tender?—A. All have opportunities for tenders, yes.

Q. I understood you to say this morning that the efficiency of the machine is your first consideration?—A. Is my first consideration, yes, sir.

Q. And that where Canadians can meet the standards— —A. Yes.

Q. —and make delivery within the time required they naturally get the preference?—A. Where their stuff has been all right, yes.

By Mr. Homuth:

Q. And price, of course?—A. Price? Well, I am not concerned with price; that is with somebody else. I want the best machine. That is all I say about it.

By Mr. McGeer:

Q. And the same thing applies to British machines?—A. British machines as well, yes.

Q. And that wherever you make purchases outside of Canada or the United Kingdom it is because it is a better machine?—A. As far as I am concerned, yes. I use all my judgment in that way.

Q. Or because deliveries can be made?—A. Deliveries—well, they probably come into it after my opinion has been asked for.

Q. Do you know of any machinery that has been purchased which has not been purchased on your advice and approval?—A. No, I do not think I do.

Q. Is it correct to say that all machinery has been accepted on your advice and approval?—A. Yes.

Q. And have you approved of all the purchases that have been made?—A. Yes, I went through them with the others.

Q. You think that the British war office would be satisfied with the purchases you have made there?—A. I should imagine so, yes.

By Mr. Brown:

Q. Do you take an active part in securing the tenders?—A. In recommending what I consider is the best machine.

Q. You do not really take an active part in securing tenders?—A. No, sir.

Q. You do not know the manner or means in which the tenders are called for, do you?—A. Only that a number of tenders come in. I imagine they are done in the usual way, the same as in England.

Q. But you really do not know?—A. In England they go out to several firms, and as far as I can see the same thing is done here. It does not interest me much.

Q. But you really do not know what method is followed here?

By Mr. Brooks:

Q. That is not part of your job?—A. No, it is not part of my job.

By Mr. Brown:

Q. I just wanted to go back to this morning when you were asked if the machinery of the old Inglis factory was suitable for the making of shells, and you said "Yes."—A. Yes.

Q. On page 455 I asked Major Hahn that question and he said:—

No, Mr. Brown, the art has changed. For example, any company that had machinery such as we have for certain of our equipment, we can use. Then there has been great development in shell production, as I have seen, and there has been new highly-mechanized, high-speed machinery developed. I imagine anybody getting into the shell business to-day would have to get new high-speed machinery.

A. To compete, certainly. But he has got machinery that would make shells. That was the question you asked me.

Q. If it were equipped for making shells, yes. I also pointed out to him that there were several factories manufacturing shells during the last war and that their equipment was regarded as obsolete by the department for making shells in view of the fact that progress has been made in the art.—A. I agree that on a competitive basis, if they were competing one firm with another, well, I do not suppose the John Inglis machinery would probably be able to turn it out at the price. But they could make shells at that plant.

Q. Yes, but not efficiently?—A. Well, I do not know about efficiently, not at the right cost.

By Mr. Golding:

Q. The machinery which he has there, the same as in many other plants, would perform many of the operations, but there are special machines now?—A. Yes.

[Mr. G. W. Gillespie.]

Q. For certain operations. That is what he tried to tell us.—A. Progress has come along and the art of producing them quickly has been developed.

Q. What firms in Canada supply milling machines?—A. What firms in Canada?

Q. Yes, do you know what firms are manufacturing milling machines in Canada?—A. Modern Tool is one; that is in Toronto.

Q. It does not matter.—A. I know there is another one. There are two lots of milling machines being made in Canada.

By Mr. MacInnis:

Q. When tenders are received for the purchase of machinery are you called in to analyse the tenders?—A. Mr. McLachlan and myself and Mr. Ainsworth discuss them together. But then I think they go to the department as well. I do not quite know that procedure. I have been called in whenever a discussion as to which would be the best machine for the job comes along.

By Mr. Brown:

Q. Your discussions are purely of a technical nature?—A. A technical nature.

Q. As to the ability of the machine to do the job?—A. Yes.

Q. So far as the purchase of the machine is concerned, which of course might be controlled by price and other considerations, that is not in your hands?—A. Not in my hands at all.

By Mr. McGeer:

Q. Yes, but you do know Mr. Gillespie, as the man responsible for the operation of that plant, and that is really your job there?—A. Well, I come in contact with it now and again. There is no reason why I should know who is making them. A fellow comes through and the plans are laid out, whether it is Dick, Tom or Harry, I do not know. I look at them and the plans of somebody else—I do not know what the name is—and say which would be the best one.

Q. But you advise as to what you want?—A. Certainly.

Q. Then when the tenders are let you know whether or not your advice has been followed, do you not, when you get the machines?—A. Yes.

Q. Well, has your advice been followed?—A. As far as I can see, yes.

Q. That is the point.—A. Yes.

By Mr. Brown:

Q. But you are not saying as to where these machines will be purchased?

By Mr. Golding:

Q. They are purchased after you have given advice?—A. When these tenders are laid on the table, it does not matter to me what firm it is. I cannot remember the names. I do not bother with that.

By Mr. Homuth:

Q. In other words, if you had tenders from four different firms for machines and they all made similar machines, whatever they may be, then you would simply pass on the efficiency of the various types of machines?—A. One up against the other, yes, sir.

Q. Then the directors of the firm and the Department of National Defence, who really do the purchasing—it would be up to them to say as to where the machines are going to be purchased?—A. Right.

Q. You have nothing to do with that, you simply recommend, and you may recommend four machines as all being efficient?—A. Yes.

Q. For that job?—A. Yes.

Q. The actual purchase of the machine is done— —A. By the department.

Q. By the company and the Department of National Defence?—A. That is so, sir.

By Mr. Golding:

Q. In connection with any particular machines you have bought or given advice on, have the four been all the same or have you decided that one is more perfect for your work than the other?—A. Well, I do not think that four have turned up like that. There has been one or two, and then of course it comes into the question of costs and promise.

Q. But that is not likely?—A. That has happened.

Q. It is not likely to happen very often?—A. That has happened.

By Mr. McGeer:

Q. Do you not take into consideration in making your recommendation the efficiency of the machines?—A. The efficiency of the machines. If three machines will do the job equally well then the other people settle it.

Q. You have nothing to do with the price in your recommendation?—A. No, that does not bother me.

Q. How many instances have there been where you have met this incident to which Mr. Homuth referred?—A. I should imagine there have been about three.

Q. What percentage of the whole?—A. I do not remember the totals.

Mr. MACINNIS: Mr. Chairman, at the sitting of April 18 this question was discussed and you suggested that you might get some information on the matter. I am referring to page 221 of the record where the chairman spoke as follows:—

The CHAIRMAN: I wonder if we can get the information for you in this way: If we can procure a list of machinery purchased through any source, manufactured in Canada, manufactured in the United States and manufactured in Great Britain, would that cover it?

Mr. BROWN: Yes.

The CHAIRMAN: I am of the opinion that the Order in Council which governs public works would apply to these purchases. That Order in Council says that the purchases must be first made in Canada if procurable, secondly in the British Empire, and thirdly from non-Empire sources. We might get information whether that governing clause applies to purchases of equipment for this contract. Would that cover it?

Have you looked into that, Mr. Chairman?

The CHAIRMAN: Yes, and we tabled a copy of the Order in Council and a copy of the comments. They were checked with the Hon. Mr. Stirling.

Mr. MACINNIS: Does the Order in Council cover this?

The CHAIRMAN: Mr. Stirling, Mr. MacInnis has brought up the point in connection with the reference I made one day regarding an Order in Council covering purchases of public works, and you remember I procured a copy of the Order in Council and both you and Mr. Anderson read it one morning, also a supplementary Order in Council.

Mr. MACINNIS: I do not know that there is very much use following the witness up with questions on this matter.

Mr. McGEER: What I thought was this: It may be necessary to recall Major Hahn, because I thought this would be the witness who could give us that information.

[Mr. G. W. Gillespie.]

The CHAIRMAN: I am sending now to get my portfolio, Mr. MacInnis. I will give you those copies.

Mr. GOLDING: What page was that?

Mr. MACINNIS: That is page 221, at the bottom of the page.

By Mr. McGeer:

Q. You mentioned this morning that the three men who were associated in the executive technical end of the supervision of the plant were Gazey, McLachlan and Ainsworth; where did you first meet these men?—A. Over at Enfield.

Q. What were they doing at Enfield?—A. How did they come to know me?

Q. I say, what were they doing in Enfield?—A. They were there getting data on the Bren gun, looking around the plant and getting quite a lot of information from the department that I had charge of.

Q. And you came into personal contact with them?—A. I came into personal contact with them.

Q. Did you know who they were?—A. Yes, I knew they came from Canada. I did not know anything else about them.

Q. Did you know they were from the John Inglis plant?—A. I did not know anything about the John Inglis Company then.

Q. Would you mind telling us what you knew about them then?—A. I found them very efficient. It was no trouble for them to grasp all the points that we talked about. It was quite good.

Q. I see. When did you learn they were associated with the John Inglis plant?—A. When they came to me and approached me about—when the superintendent approached me about going over to Canada; that is, when I got interested in it; that was a few weeks later.

A. How long had you been in contact with them about it?—A. I should say three weeks or a month.

Q. How long did they remain there after that?—A. About a fortnight I should think, after that; that is roughly about it.

By Mr. Green:

Q. How long was that before you came to Canada?—A. That was about two months.

Q. That would be about June of 1938?—A. Around about that, yes.

By Mr. McGeer:

Q. After you were approached with reference to coming to Canada you knew that you would be associated with these men, didn't you?—A. Oh yes.

Q. Had you been able to form any opinion as to their capacity?—A. Well that is from what I could see they were going to be a pretty good group to work with, they were all pretty good engineers.

Q. They were the men sent over by John Inglis company to gather preliminary information on the set-up of this operation here?—A. Yes.

Q. And they are the men whom you have been associated with since you came to the John Inglis plant?

By Mr. Brown:

Q. You said that when you first came here in August you were the only man connected with the plant that was experienced in the manufacture of small arms; is that right?—A. I believe that is right, yes.

Q. And you were also assisted by—who is it, Lieutenant Jolley?—A. Lieutenant Jolley.

Q. You two were really the men who were more or less engineering things at that time?—A. We knew most about the gun, yes.

Q. And then how long was it before you received further assistance from experts, from any experts in the making of small arms?—A. You mean the selection of the rest of the staff for the factory?

Q. No. In August it was some time after that you two were engaged in engineering and laying out the plant for the manufacture of small arms; now then, when was the next man experienced in the making of small arms hired, or when did he become attached to the plant.—A. The next man—well—

Q. Or, are you still the only man experienced in the making of small arms?—A. Well, I was the one with the greatest experience from England; you see, the plant has employed one or two people in the factory who were employed on small arms work in this country.

Q. Do you know when they were employed?—A. No, I do not know those dates.

Q. It was some time after?—A. Some time after, yes.

Q. And Lieutenant Jolley is still assisting you.—A. Lieutenant Jolley is with the department here in Ottawa.

Q. He is still aiding you in many respects, is he not?—A. Oh yes, he is.

Mr. FACTOR: He is an inspector.

The WITNESS: Yes. He is an inspector.

Mr. McGEER: He has become an aide now. He has been promoted from the position of inspector in the department to the position of aide.

By Mr. Green:

Q. When were you first approached about coming to Canada?—A. It was some time in June.

Q. June of 1938?—A. June of 1938, yes.

Q. I am asking that question because this Inglis company got their contract on the 3rd of March, 1938.—A. I see.

Q. On a date in June you were approached about coming over here?—A. Yes.

Q. That was about the same time as you met Mr. Ainsworth, Mr. Gazey and Mr. McLachlan?—A. Just about that period, yes.

By Mr. McGeer:

Q. In other words, it appears as if the John Inglis company went to the war office and asked for the assistance of an experienced man in the production of these guns?—A. I should reckon that is what took place.

Q. And as a result of that they recommended you at the British War Office?—A. Yes.

Q. And I presume they got—possibly you have no desire to say so—but the best man for that kind of job the British War Office had?—A. We will be able to judge as to that as we go on.

Q. In any event, the proposition was that you had a plant set up at Enfield?—A. Yes.

Q. And Mr. Gazey had had experience in the manufacture of small arms in a factory in Birmingham, and in company with Messrs. McLachlan and Ainsworth they went to England for the purpose of ascertaining the information and to make the studies necessary to set up a duplicate of the Bren gun manufacturing plant in Canada; is that correct?—A. That is so.

Q. They got that information?—A. Yes.

Q. They returned to Canada and then they proceeded to set up, to duplicate the line of production in the John Inglis company that is now in operation at Enfield?—A. Yes.

[Mr. G. W. Gillespie.]

Q. You are conversant with both plants?—A. Yes.

Q. You know what the Enfield plant is?—A. That is so.

Q. And you are in a position now to tell us what the John Inglis Bren gun production plant will be when it is completed; is that right?—A. Yes, I think so.

Q. How will the John Inglis plant compare with the Enfield plant?—A. This one for Canada, do you mean?

Q. I mean—I am not talking about the Enfield—A. Well, you are comparing the one with the other.

Q. With respect to the Bren gun section only?—A. Well, the Bren gun tool room, for a start, for the small arms business, is the best I have ever seen. I don't want to refer to Enfield. I will leave you to judge that. It is the latest.

By Mr. Bercovitch:

Q. You are referring to the new plant here?—A. Yes.

MR. GREEN: To the tool room.

THE WITNESS: I say that it will be the best tool room in Canada for a long time, until someone comes along and builds a better one.

MR. BROWN: You should say, until the government comes along and gives them the money to build it.

MR. McGEER: Can we not deal with the efficiency of the plant and leave the question of money to be dealt with at the next election whenever that comes along?

MR. HOMUTH: No one is questioning the efficiency of the plant?

MR. McGEER: I thought you were the one who referred to it as a broken down old boiler plant.

MR. HOMUTH: Not at all, why should it not be efficient? The government has spent a million dollars making it efficient. I should think it should be about the most efficient plant in the country. No one is questioning the efficiency of the plant. That is what it should be after the government has spent hundreds and hundreds of thousands of dollars on it. Any one could duplicate an efficient plant like that if they had government money behind them. I have never questioned that. It is not a question as to the efficiency of the plant, but rather as to the cost of the plant, the cost to the government in purchasing machinery, and things of that kind, and many of these things cannot be answered by Mr. Gillespie. I think we are asking Mr. Gillespie a lot of questions and he is trying to answer them as best he can, but the answers are not just what they ought to be because he does not know. Mr. Gillespie admits that in the purchase of the machinery the only thing he deals with is the efficiency of the machine; he is not concerned with where it is going to be purchased or what price is going to be paid for it.

MR. McGEER: In any event, Mr. Chairman, isn't that all argument? I might state that I disagree with Mr. Homuth in what he says now, but it does not seem to me that this is either the time or the place to argue it.

By Mr. McGeer:

Q. What I wanted to know is, this plant that we are going to have in Canada according to your statement, and immediately in so far as the tool room is concerned; it is the best you have ever seen?—A. Yes.

Q. How far does it go beyond the tool room?—A. It goes into the gun plant as well.

Q. And how will it compare with other plants that you know?—A. Very well indeed. You don't have so many machines here that you have been using before on rifles as they had at Enfield; therefore, the plant is more

advanced—a better class of machine—than they have at Enfield, due to the fact that they have kept a lot of old machines that they are able to use but which are not so good as the machines being purchased for new plants on Bren gun work here.

Q. And so there is something of an advantage in starting an establishment, a plant of this kind, right from scratch?—A. Yes, certainly.

By Mr. Homuth:

Q. In other words, Mr. Gillespie, anyone that wanted to start a Bren gun plant, a munitions plant, or any other kind of a plant, having the money with which to purchase the machinery, and who is in a position to build his plant from the start with the very best machinery available, doesn't have to worry about using old machinery which may happen to be in the place, and trying to make it efficient, not being precluded through lack of money from purchasing new machinery can do that; that is true, isn't it?—A. That is the fact.

By Mr. McGeer:

Q. So we are in this position; when the plant is completed and in operation Canada will have for any emergency that may arise one of the most modern, efficient, small arms plants in the British Empire; is that correct?—A. I would say so, yes.

Mr. HOMUTH: I think that question is asked in such a way that it leaves a false impression—Canada will not have, the John Inglis company will have.

Mr. McGEER: No, no; Canada will have—you see, that is another matter of argument. I disagree with you again.

Mr. HOMUTH: You naturally would. It is the John Inglis plant.

Mr. McGEER: I don't think any of us can take that position, because there is a document in this inquiry called a contract which speaks for itself.

Mr. GREEN: But it does not speak the same way as you do on that point.

Mr. McGEER: I would say that would be open to discussion, surely. From looking at the contract I am satisfied that the contract provides that the government can take that plant over and operate it as a government plant at any time.

Mr. HOMUTH: The contract does not provide that. The contract provides that the government buys the machinery.

Mr. McGEER: And the government, operating under our system of democracy would not have the right of taking such a plant over without paying for the machinery.

Mr. HOMUTH: Canada does not have the plant, it belong to the John Inglis company.

Mr. FACTOR: It is in Canada anyway.

Mr. HOMUTH: That contract provides that the government owns the machinery, and possibly they can take the machinery out, but they haven't the buildings and the John Inglis company have.

Mr. McGEER: I did not say that the government of Canada will have its own plant; I said that Canada would have, meaning that that plant would be established in Canada to meet any emergency that might arise, one of the most efficient small arms plants in the Empire; isn't that correct?

Mr. FACTOR: I think you should add, located in Toronto.

Mr. GOLDING: I want to take exception to Mr. Homuth's continual reference to this place as a broken down old boiler shop. I just want to say this—

Mr. HOMUTH: Check up, Mr. McGeer. He is the man who keeps on referring to it as a broken-down old boiler shop.

[Mr. G. W. Gillespie.]

Mr. GOLDING: I just wanted to say this: that any member of this house can take any exception he likes to this contract but when he starts to discredit this company which is trying to establish a business—that business was established for many years. I was employed in that plant at one time and I resent hearing it being referred to as a broken-down old boiler shop. They had one of the best-equipped boiler shops in this country.

Mr. McGEER: And it is still.

Mr. GOLDING: They turned out some of the best work of any boiler shop in the country. I do not see the object or purpose of trying to discredit the commercial side of this company by referring to it as a broken-down old boiler shop, which it never was. The fact that it was in bankruptcy does not indicate at all that it had not the equipment there, equipment possibly better than or at least as good as that of Goldie and McCullough at Galt, and just as good as any boiler shop in this country.

Mr. HOMUTH: I object to the member getting up and saying that I am trying to discredit the company. I am not. We have already discredited the government in the way they gave the contract. It is not a question of a company at all. It is a question of the granting of the contract and the contract itself.

Mr. GOLDING: Just a minute. Not very many moments ago he referred to this as a broken-down boiler shop, and he said it was. It never was, and that is not a true statement to make.

Mr. BROWN: It was bankrupt.

Mr. GOLDING: You know that, Mr. Homuth, just as well as I do. What good purpose is going to be served by making these statements? You are in business yourself; and there is no good purpose going to be served by peddling stories like this over the country.

Mr. BROWN: The witness said this morning that they had to get all new machinery. This old boiler machinery had nothing to do with Bren guns at all.

Mr. McGEER: He did not say any such thing.

Mr. BROOKS: The only thing he did say was that with the Ross rifle equipment you could not make Bren guns when he came in. What are you talking about boiler factories for?

Mr. GOLDING: I should like to draw Mr. Brooks' attention to the fact that I am not disputing that part of it at all. But the reference to this plant as being a broken-down boiler shop is not fair.

Mr. BROOKS: I never made that statement.

Mr. HOMUTH: You made the first reference to it being a broken-down boiler shop this afternoon.

Mr. FACTOR: You have been talking about it being a broken-down boiler shop. You fellows started talking about it. I heard your sweet voice.

Mr. GOLDING: It is not fair. There is no good purpose being served by it. When you have a plant or an industry trying to re-establish itself, to give employment to men who need the work, what is the big idea of spreading across this country where this company is going to try to get commercial business, the idea that it is a broken-down boiler shop? It is absolutely untrue and unfair and there is not any member in this house who should circulate a story like that.

By Mr. MacNeil:

Q. Mr. Gillespie, under the present machine lay out, would it be very difficult to change from Bren gun production to Enfield rifle production?—A. As far as the fixtures, tools and gauges are concerned, that has got to be entirely new. It is the machine that is the only thing that comes into it.

Q. You would use the same profiling machines?—A. The same profiling machines could be used; but they would have to have different fixtures, tools and gauges.

Q. The same rifling machines?—A. The same rifling machines. If it was .303 cartridges that were still in force for the other job, that would help out again. If it was a different bore, it means fresh equipment for that machine; that is all.

Q. What length of time would be required to provide the tools, jigs and gauges for Enfield rifle production?—A. I should say it all depends on the number you wanted, but not so long as the Bren.

Q. Not as long as the Bren?—A. No.

Q. Are there not as many operations?—A. There are not as many operations, no.

Q. May I ask, Mr. Gillespie, if when you left the Enfield plant the Royal Small Arms Arsenal was in production of any other type of machine gun?—A. Yes.

Q. In production of any type of machine guns brought out since the Bren?—A. No.

Q. Other types?—A. Yes.

Q. You are not aware of the development of any other type of light machine gun?—A. Improvements on old types; that is what has been going on for a number of years.

By Mr. Brooks:

Q. Was the Bren machine gun accepted by the United States, do you know, as the latest in machine guns?—A. You want to know whether the United States accepted it?

Q. Yes. Do you know?—A. No. I do not know anything about that.

By Mr. MacNeil:

Q. Were you present at any of the tests made of the Bren gun?—A. No. That is done by the inspection department.

By Mr. McGeer:

Q. Is there any question about the Enfield or the Bren gun being now recognized as standard?—A. As far as I know, no. I do not know anything wrong with it. I have not heard anything.

Q. I mean, the British war ministry still accept the Bren gun as their—what do you call it—light field quick firing machine gun?—A. Light machine gun.

By Mr. MacNeil:

Q. You also know that they make other types?—A. They make other types.

Q. Also light machine guns?—A. Yes.

By Mr. McGeer:

Q. But is not this their—A. This is their standard.

Q. This is their standard?—A. Yes.

By Mr. MacNeil:

Q. It is their standard for certain types of manoeuvres?—A. It is a light machine gun.

Q. Yes.—A. The Vickers gun is not a light machine gun.

Mr. McGEER: Let us clear that thing up. As I understand it, there has been a suggestion made by Mr. MacNeil that this gun, since it was adopted by the British war office, has been superseded by a superior type of gun for this particular purpose.

[Mr. G. W. Gillespie.]

Mr. FACTOR: That it has since come out?

Mr. McGEER: Yes. Is that the point? Because I understood Mr. Gillespie—

Mr. MACNEIL: I was asking him with reference to his experience at Enfield. Obviously he must limit his evidence to his experience at Enfield on that point.

Mr. McGEER: That is what I say.

Mr. MACNEIL: I am not questioning him as a technical expert of the war office.

By Mr. McGeer:

Q. This Bren gun, as far as you know—A. As far as I know—

Q. —is the standard for the infantry light machine gun in the British army?—A. That is right, sir.

Q. Has there been any other machine gun adopted to supersede this gun?—A. No.

Q. In the field of its service?—A. Not till I came away. I do not know what is going on over there to-day.

By Mr. MacNeil:

Q. You are only speaking as far as your experience in the Enfield plant is concerned?—A. That is all.

By Mr. McGeer:

Q. I understand that of all the types of field quick firing machine guns that were checked over in the Spanish war, the Bren gun was the one that was recognized as the most efficient and serviceable gun in the field. Have you any information on that?—A. I could not tell you that, as to what was used in the Spanish war. I do not know anything about that.

Mr. BERCOVITCH: Mr. Hore-Belisha in the last speech made by him, I believe, said that the British army was equipped to a very considerable extent with thousands of Bren machine guns.

By Mr. McGeer:

Q. Speaking of those other types of machine guns that were manufactured when you were over there, what were they? Were they similar to the Bren gun?—A. No.

Q. What were they for?—A. They were for the heavier work. You all know one of them, the Vickers gun.

By Mr. MacNeil:

Q. That is made in another factory, is it not?—A. That is made at Enfield.

Q. You would be overhauling the old Lewis gun?—A. Overhauling Lewis guns, yes.

By Mr. McGeer:

Q. You have three guns: the Lewis, the Vickers and the Bren?—A. Yes.

By Mr. Brooks:

Q. Has the Lewis gun not been pretty well discarded? The Bren has taken the place of the Lewis, has it not?—A. I do not know what their program is on that, sir.

By Mr. Factor:

Q. To your knowledge, is the Bren gun the most efficient light machine gun?—A. Well, it is the one I have seen and the one the British government have got. What other countries or anybody else has got, I have not the faintest idea.

By Mr. MacNeil:

Q. You were not in on the tests?—A. Of the foreign guns?

Q. Yes.—A. No.

By Mr. McGeer:

Q. In any event, this was the gun that was selected out of the test. You know that?—A. I know that. Up to the period when the Bren was selected, we used to have to do part of the—give part of the information to the small arms committee.

Q. The Lewis gun, as I understand it, is a gun that has been superseded by the Bren gun?—A. Yes.

Q. That is, as far as the Lewis gun is concerned, they are reconditioning what they have on hand?—A. Yes.

Q. But they are not manufacturing Lewis guns now?—A. No.

Q. The Bren gun has taken the place of that gun?—A. Yes; that is right.

Q. And the Vickers gun is for another purpose?—A. Yes.

Mr. FACTOR: It is a heavier gun.

Mr. McGEER: Yes, it is a heavier gun and stationary.

Mr. BERCOVITCH: To kill heavier men.

Mr. BROOKS: The Lewis gun is carried with the infantry. The Vickers gun is a heavier machine gun.

Mr. MACNEIL: For sustained firing.

By Mr. Bercovitch:

Q. In any event, we have got down to this point, that the Bren gun is the standard gun of the British army for infantry service purposes?—A. That is what I should say, yes.

By Mr. MacNeil:

Q. You also know that the British government is making various types of machine guns now?—A. Oh, yes. That is a general statement, now.

By Mr. McGeer:

Q. Now, we are getting—A. You asked of the Bren gun. No, there is only that one.

Q. Are there other guns of the type of the Bren gun being manufactured in England now?—A. There is quite a number of them. Where are you going to stop for size?

By Mr. MacNeil:

Q. They are picking up everything now that they can get hold of?—A. I should think so, yes.

Mr. BERCOVITCH: We hope they are.

By Mr. MacNeil:

Q. As a matter of fact, you know that a new invention in the field of armament very quickly becomes obsolescent. It is a race against obsolescence all the time, is it not?—A. Yes, I suppose it is.

By Mr. McGeer:

Q. Let us get down to this. Is the Bren gun obsolescent?—A. No.

Mr. MACNEIL: It may be by the time it is delivered.

The WITNESS: I shall have to leave that to the British government and the war office to say.

[Mr. G. W. Gillespie.]

By Mr. McGeer:

Q. I mean, from your knowledge?—A. No, I should say it is okay.

Q. I understood you to tell me a moment ago that you were reconditioning Lewis guns and that you were manufacturing Vickers and Bren guns?—A. That is what they were doing when I came away from England.

By Mr. MacNeil:

Q. That is in the Enfield plant?—A. Yes.

By Mr. McGeer:

Q. Then I understood you to say to Mr. MacNeil that you know they are manufacturing other machine guns in the Enfield plant?—A. I do not know, but I can imagine there is any amount of people developing other types of guns, and they are continually coming along.

Q. Do you know of any other gun that has been adopted by the British war office?—A. No.

Q. And is any manufactured in the Enfield plant?—A. No.

Q. You see, that is a very different answer to what you gave to Mr. MacNeil; because I understood from your answer to him that they were in the Enfield plant manufacturing a number of machine guns.—A. Yes, but of a different size. When you come down to the Bren gun, it is called a light machine gun.

Q. Yes?—A. But when you ask me "machine guns"—yes, they are making the Vickers machine gun.

Q. Yes?—A. And they are reconditioning Lewis guns.

Q. Yes, any others?

By Mr. MacNeil:

Q. What about the guns for aircraft?—A. I could not say.

Mr. BERCOVITCH: He has already said that those other two are for different kinds of work.

Mr. McGEER: I thought that was the answer, but then I thought there was a different answer given to Mr. MacNeil.

Mr. MACNEIL: As a small arms expert, his general knowledge is that other guns are being made in other parts of England.

Mr. FACTOR: Not of the type of the Bren gun.

Mr. BROOKS: No. The Bren gun is displacing the Lewis gun. There is no question about that. That is why we are manufacturing them in Canada. Take this Lewis gun with which our men were equipped in the last war and with which the militia units are equipped to-day. Until they get enough Bren guns to displace the Lewis guns, they have to still retain the Lewis guns and keep them in shape in case anything happens.

Mr. McGEER: I quite agree with that. But I understood Mr. MacNeil to suggest that there is a gun now that has made the Bren gun obsolete.

Mr. BROOKS: There have been reports in some of the papers.

Mr. McGEER: Maybe there is. I do not know whether there is or not.

Mr. BROOKS: To the effect that the United States has improved on the Bren gun. As Mr. MacNeil says, there is competition among the nations all the time, to try to get a better gun.

Mr. FACTOR: But you would not call the Bren gun obsolete?

Mr. BROOKS: No, I would not say so. I do not think Mr. MacNeil is suggesting that.

Mr. McGEER: I thought Mr. MacNeil did suggest that in the house.

Mr. FACTOR: He broadly hinted at it.

Mr. McGEER: I thought he said that. It may be the fact. I do not know whether it is or not. I think if we can clear it up here, we should do so.

By Mr. McGeer:

Q. As far as you know, the Bren gun is still the standard light machine gun of the British army?—A. Yes.

Q. And it has not been superseded by any other weapon?—A. That is so.

Q. Whereby it is put in the category of obsolescent guns?—A. No.

By Mr. Bercovitch:

Q. In other words, it is the last word on the subject. Is that right?—A. I hope so.

By Mr. McGeer:

Q. As far as you know, is it the last word on the subject?—A. As far as I know, it is the last word on the subject.

Mr. HOMUTH: For that particular purpose.

By Mr. MacNeil:

Q. There is just one other point I should like to touch on. As you understand it, it is a weapon for infantry in manoeuvring?—A. Yes.

Q. It is a light gun for the purpose of manoeuvring?—A. Yes.

Q. It is not a gun capable of sustained firing for the purpose of defence or firing from a fixed emplacement?—A. No. I am not an expert from the war office or the small arms committee. From what little I know of it, the Vickers gun is used for that purpose which you mentioned, for defence.

By Mr. McGeer:

Q. Mr. Gillespie, can you tell us how the cost of production in the John Inglis plant will compare with the cost in the Enfield plant, making allowance for the higher wages and wage rates paid in Canada, and, I think, the higher costs for materials?—A. Well, from that point of view I should say that the man-time production in the Inglis plant will be quite equal to the Enfield plant.

By Mr. Green:

Q. You are not very much concerned with costs at all, are you?—A. I do not know what the wages are like in this country at all, what you pay the men or anything.

Q. You do not know what is being paid for machinery or what is being put in the Inglis company plant by the government or anything about costs?—A. I am not interested in that.

Mr. BROOKS: You do not pay taxes in Canada.

Mr. McGEER: Yes, he does.

By Mr. MacNeil:

Q. The plant at Enfield is under the direct control of the British government?—A. That is so, yes.

Q. In no sense can it be regarded as inefficient? You would say it is a perfectly efficient plant?—A. Yes.

Q. Under governmental management?—A. Yes.

[Mr. G. W. Gillespie.]

By Mr. McGeer:

Q. You recognize the plant here is subject to supervision and control by the Canadian government too?—A. I recognize that.

Q. Yes?—A. Certainly; there are going to be the inspectors.

Q. And the efficiency of the Canadian plant will be just as great as that of the British government plant?—A. Yes, I hope so.

By Mr. Bercovitch:

Q. How long has the Enfield plant been in existence?—A. About 70 years.

Q. Away before I was born.

By Mr. MacNeil:

Q. There are no profits at Enfield?—A. No profits.

By Mr. Golding:

Q. In connection with that, you say the Enfield plant has been in operation for 70 years?—A. Yes, probably longer.

Q. And in their work what percentage do they consider normal for rejections? What percentage of rejections do they consider normal in their work after all these years of experience?—A. Leaving the Bren gun out of it?

Q. Yes.—A. The rifle, 3 per cent.

Q. After all their years of experience?—A. Yes.

Q. They still have 3 per cent?—A. Yes, 3 per cent on the rifles and that is a lot easier thing to make than a Bren gun.

By Mr. MacNeil:

Q. Do you say when you have tools, jigs and gauges all made and profiling machines set up that will still happen? Is not the general machine layout of such a nature as to enable the operation of machines to be more or less automatic? I understood when we were at the plant that the intention was to carry out the production layout to enable men to be replaced in large numbers by girls if men were required for war service. Is not that true?—A. That may be done, yes.

Q. And no work is required; it is all automatic? The percentage of rejections would be very small, would it not?—A. The human element comes into it. You start talking about women on the job; I am going to tell you that when you put women on the job your wastage percentage will go up.

Q. They are all automatic machines, are they not?—A. As soon as you change from men to women there is going to be a sudden jump—if it happens because of war or something like that—in the percentage. There will be a sudden jump in the percentage of wastage during the time you are training new people.

Q. On automatic machines?—A. On automatic machines or any other type of machines.

By Mr. Golding:

Q. You have told us that after all those years of experience you still have those rejections and when you put in new men and new women on this type of work you say the percentage will go up. You say that from all the experience that you have had?

By Mr. Brooks:

Q. Three per cent is the average over a period of years?—A. Three per cent is the amount.

By Mr. Green:

Q. With regard to the Bren gun production in England, what is the normal percentage of rejections or wastage, as you call it?—A. That had not been figured out before I came out. I could not give you any correct figure on that.

Q. Should the percentage of rejections or wastage at the Inglis plant be any higher than— A. Any higher than Enfield?

Q. Yes.—A. I should say no, decidedly not.

By Mr. Homuth:

Q. Particularly in view of the fact that they are starting a new firm, new plant, they are able to purchase much more efficient machines than they would have over there?—A. That is so.

By Mr. Green:

Q. Mr. Gillespie, under the contract the Inglis company is allowed a percentage of rejections that are allowed at the Enfield plant.—A. I see.

Q. Without being charged for them, and you say there should be even fewer rejections at the Inglis plant than there would be at Enfield?—A. Yes, I should say that is right.

By Mr. Bercovitch:

Q. At any rate, no one has had any experience as to the percentage of rejections, so far, either at Enfield or here?—A. I should say they should not be a bit over the Enfield plant.

By Mr. Golding:

Q. Just a minute. You told us this morning that you were at the plant in Czechoslovakia?—A. Yes.

Q. How long were you there?—A. A fortnight.

Q. Now, have you any idea of the percentage of rejections in that plant?—A. No, that point was not touched on at all.

Mr. McGEER: I do not quite get where you find that statement, Mr. Green, on the interpretation of the contract that the rejects were to be governed by the normal allowed at the Enfield plant.

Mr. BERCOVITCH: No, it is not in the contract.

Mr. McGEER: I think you read that into the contract yourself.

Mr. BERCOVITCH: That is not in the contract.

Mr. McGEER: As I read the contract—

Mr. GREEN: This is what it says on page 12 of the contract: “. . . . and are not such as normally occur in the manufacture of Bren guns and spare and component parts thereof according to accepted engineering standards.” Then, we were told by one of the previous witnesses that that was based on Enfield standards. I made a note of it at the time. Normal rejections would be based on Enfield standards. Mr. Gillespie says to-day there should be even fewer rejections than at the Enfield plant.

Mr. McGEER: As a matter of fact, it does not mean anything, because nobody has yet established any standard of rejection.

The WITNESS: No.

Mr. GREEN: It means this, then, that you have been trying to argue for the last three or four weeks that there will be all kinds of rejections.

Mr. BERCOVITCH: Certainly. If we refer to the evidence taken up to the date of this inquiry, we will see that there are 265 different operations on the body of the gun alone, and there are bound to be some errors from time to time, bound to be some rejections above normal. Apart from normal rejections, what about sabotage? That would not come under normal rejections.

[Mr. G. W. Gillespie.]

By Mr. Golding:

Q. Let us ask the witness. Now, with your experience over some 40 years, do you anticipate making 12,000 guns without considerable rejections?—A. Oh, no.

Q. Of parts and all that sort of thing?—A. No; that is natural, that is sure to be.

By Mr. Homuth:

Q. But you think that the rejections should be less in a modern plant like this than they would be in the Enfield plant?—A. I would say that they won't be any more than the Enfield plant.

By Mr. Green:

Q. In the Enfield plant there is a certain allowance made for a certain percentage of rejections?—A. Yes.

By Mr. Factor:

Q. The help at Enfield have more experience, considering the time that they have been at it, than the help at the Inglis plant?—A. As far as working the machines is concerned, I should say they are in as good a position here as at Enfield, if not a little better.

By Mr. McGeer:

Q. In your experience in the production of small arms, and you have been in a great many plants— —A. Yes.

Q. Starting out with a new operation such as the Bren gun— —A. Yes.

Q. —you have a gun that is made up of 160 parts. It is a gun which is operated by gas power which generates from the explosion in the gun?—A. Yes.

Q. And you produce those 160 parts with 1,800 different operations, I understand?—A. Yes, I should say somewhere about right, yes.

Q. Would it be possible to set up a plant and have production so perfect that you would have nothing but the normal rejections?—A. Oh, no, sir, no. As time goes on your rejections, of course, will get less, as they master the situation. But I am prepared to say that they won't have any worse cases here than they have had at Enfield regarding rejections.

Q. The contractor who takes a fixed overhead price as a limit has to figure on the operation of rejection losses in the contract?—A. Yes.

MR. GREEN: That is a matter of the contract. The contract provides for his being allowed for the normal rejections that there are at Enfield. The witness says there should not be as many rejections as there are at Enfield.

MR. MCPHEE: It should not be any more.

MR. GREEN: Put it that way. It should not be any more. Put it on that basis, that is good enough.

MR. McGEER: I happened to be a moulder.

MR. GREEN: A long time ago.

MR. McGEER: Probably they have made improvements in their methods to a great extent since then. We used to get very substantial portions of rejections in the plant that I worked in.

MR. MACINNIS: I would not wonder.

MR. McGEER: I agree. It was probably due to the inefficiency of the crew that was working. But it may surprise Mr. MacInnis to know that on my heap there was less than there was on some of the others, and as a result of that I got a rise in pay.

The CHAIRMAN: And became a moulder of public opinion.

Mr. McGEER: What I do think is this, Mr. Chairman. There has been some question as to whether or not the profit was a gross profit or a net profit, and I think that Mr. Gillespie can give us some information as to whether or not in setting up a new plant of this kind it would be reasonable to expect some measure of rejections that are going to be a loss to the contractor in charge of this plant.

Mr. GREEN: That again depends on the interpretation of the contract itself.

Mr. McGEER: Let me read this contract to you. I suppose you have had something to do with this kind of thing before. You know something of rejects?

By Mr. Homuth:

Q. Have you ever had anything to do with drawing a contract, Mr. Gillespie?
—A. No, not in Canada.

Mr. MACINNIS: You are lucky.

By Mr. McGeer:

Q. But you do know what a contract of this kind means?

Mr. BROOKS: So do we.

Mr. MACINNIS: We do not.

Mr. McGEER: I agree with that, because that is more than obvious.

By Hon. Mr. Stirling:

Q. You have been referring to rejections at Enfield. Would you understand rejections to mean the rejection of the complete gun, or of each little small part?—A. On the percentage basis of everything?

Q. Of each part?—A. Of everything, yes.

Q. No, rejection of the gun in process of manufacture?—A. You are referring to scrap, not referring to a thing turned down because it has got a burr on it and when a chap comes along and rubs it off it is all right. That is not a rejection. You are referring to a rejection that is going to be waste, sir.

Q. Of the complete gun, after the gun has been assembled. When you speak of rejections are you referring to the finished gun, or each one of the multiple parts?—A. Even then the gun would not be rejected, the whole part; a portion of it would be left.

By Mr. McGeer:

Q. This is the way the contract reads. I am referring to the section that deals with rejections and it appears on page 11 of the contract and is as follows:—

The party of the second part agrees that all work done under this contract shall be in accordance with the specifications supplied by the party of the first part and that all material and workmanship shall be subject to inspection and test by duly authorized representatives of the party of the first part at all times and places, and when practicable during manufacture, and that should any of the articles or materials comprised or to be used in said Bren guns and in spare and component parts thereof be found by the party of the first part to be defective, either in quality or workmanship, or otherwise not in conformity with the aforesaid specifications, the party of the first part shall have the right to reject such materials and/or articles, as the case may be, or require their correction, provided always that the costs of any material or spare or component parts so rejected, including costs of labour thereon shall not be charged to the party of the first part if the defects in same which cause such re-

[Mr. G. W. Gillespie.]

jection are the result of faulty workmanship or negligence on the part of the party of the second part and are not such as normally occur in the manufacture of Bren guns or spare or component parts thereof according to accepted engineering standards.

Now, that contract provides that there is a certain percentage of the rejections that is going to be treated as within accepted engineering standards, and over and above that there is the possibility of rejections the cost of which must be borne by the contractor and not by the government.

Q. Either of Great Britain or Canada?

By Mr. Bercovitch:

Q. Is that right? Do you agree with it, yes or no?—A. Well, I do not know much about the drawing up of these contracts, but that sounds quite sensible to me.

Mr. McGEER: Well, usually the sensible sounding thing is the correct interpretation of a contract.

Mr. GREEN: He did not say "interpretation."

By Mr. Bercovitch:

Q. Let me refer to page 3117 of the evidence of Mr. Gillespie given before the Davis inquiry, as I think it would be enlightening:—

Q. Now, with regard to the barrel, as I understand it, the barrel of the Bren gun has twenty-one or more dimensions which have no tolerance whatever—no manufacturing limits?

Your answer was "Yes" to that?—A. Yes.

Q. Your evidence continues:—

Q. That is, they must pass the gauge absolutely?—A. Yes, absolutely.

Q. And it means that if there is the slightest tolerance, it is a reject?

A. Yes, it is a reject.

That is correct?—A. Yes. That is the bore of the gun.

Q. And there are twenty-one different dimensions on the barrel alone?—A. Yes.

Q. So there is plenty of room for rejects, is there not, Mr. Gillespie?

Mr. GOLDING: On page 459, when Mr. Hahn was here, I said this:—

I just want to follow this up. In estimating the profit at \$267,000, you cannot say now that you will get that profit?

His answer was, "Oh, no." Then I said, "Because there may be losses above normal?" and his answer was, "Absolutely. We will obviously try to avoid that." That was his opinion when he was a witness.

Mr. HOMUTH: But Mr. Gillespie has said that the rejections here would not be greater than those of the Enfield plant.

By Mr. McGeer:

Q. But they do have rejections in the Enfield plant above those which are allowed as coming within what is possible or that is allowable in accordance with accepted engineering standards?—A. That happens in the best regulated families. Yes, there is no doubt about that.

Q. And you are going to have that kind of thing happen in the John Inglis plant?—A. Very, very rarely. It is going to happen. It is almost sure to happen at some time or other, with some little bit of a disaster.

By Mr. MacNeil:

Q. You expect it will happen rarely?—A. Rarely, yes. It is not going to be a common thing all the way through.

By Mr. McGeer:

Q. Yes, but where you have 12,000 guns you do not have to have that happen very often?—A. No.

Q. To eat a serious hole in a profit which is limited down to roughly five per cent?—A. Huh huh.

Q. Do you?—A. (unanswered).

By Mr. MacNeil:

Q. You do not expect the percentage of rejections would be high due to faulty workmanship or negligence, as mentioned in the contract?—A. No.

By Mr. Green:

Q. Even for faulty workmanship there is a percentage of rejections allowed at Enfield?—A. Yes.

Q. And you do not think that the Inglis plant will exceed that percentage of rejections?—A. Well, you asked me some time ago as to whether the rejections here would be any greater than there at Enfield and I say "No, they won't." Taking the Enfield starting up and the John Inglis starting up I can almost say definitely that my opinion is that they will not be quite so heavy as they were at Enfield.

By Mr. Golding:

Q. But a few moments ago, Mr. Gillespie, you did say that even at Enfield they had rejections above the normal?—A. Oh, they do have, yes.

Mr. GOLDING: That would be a loss.

Mr. FACTOR: I move the adjournment, Mr. Chairman.

The CHAIRMAN: Do you wish to call Mr. Jolley? He is here this afternoon.

Mr. GREEN: You agreed at noon that we would not call him.

The CHAIRMAN: Yes, we had agreed.

Mr. McGEER: Why can we not go on?

The CHAIRMAN: I have heard some of the members change their opinions before. However, we shall adhere to our understanding and adjourn.

Mr. MACNEIL: When is the next meeting?

The CHAIRMAN: We shall adjourn to the call of the chair in order to get Colonel LaFleche.

(At 5.20 the committee adjourned *sine die*.)

SESSION 1939
(HOUSE OF COMMONS)

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
RESPECTING

THE BREN MACHINE GUN
AND OTHER ARMAMENT CONTRACTS

No. 19



WEDNESDAY, MAY 17, 1939

WITNESS:

Capt. M. P. Jolley, Department of National Defence

MINUTES OF PROCEEDINGS

WEDNESDAY, May 17, 1939.

The Standing Committee on Public Accounts met at 11.30 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Bercovitch, Brown, Factor, Fleming, Fraser, Glen, Golding, Green, Homuth, Isnor, Kennedy, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Patterson, Purdy, Slaght, Taylor (*Norfolk*).

In attendance: Captain M. P. Jolley, Department of National Defence.

Captain Jolley was called, heard and questioned.

At 1 o'clock p.m. the Committee adjourned until 4.30 p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.30 p.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Bercovitch, Brown, Factor, Fraser, Golding, Green, Homuth, Isnor, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Patterson, Purdy, Rickard, Taylor (*Norfolk*), Thauvette, Wood.

In attendance: Captain M. P. Jolley.

Exhibit No. 14: Captain Jolley filed six typical specifications of machines required to be purchased for installation in the plant of the John Inglis Company.

The Committee adjourned to the call of the Chair.

A. L. BURGESS,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

May 17th, 1939.

The Standing Committee on Public Accounts met at 11.30 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Jolley is here this morning and we will go on with him as our witness.

CAPTAIN M. P. JOLLEY, Ordnance Branch, Department of National Defence, called.

By Mr. MacNeil:

Q. Would you be good enough to explain to the committee your experience with regard to the machine gun, beginning with your experience with the machine gun in England. First of all, may I ask your experience?—A. Well, to touch briefly on my preliminary training, I am a graduate in mechanical engineering, having graduated from McGill university in 1923. Following one year in practical experience in connection with industry and principally on municipal engineering projects I came into the Department of National Defence as an ordnance mechanical engineer in the spring of 1934. After spending possibly six months in Canada on ordnance engineering work, including practical machine shop work, I proceeded to England and spent practically two years gaining detailed knowledge and experience on ordnance work in connection with the Woolwich arsenal and particularly the Royal Small Arms factory at Enfield, where I spent one year. During my stay at Enfield I specialized in the study particularly of equipment and methods required for the production of small arms generally, and made a detailed study of the Bren gun as a weapon, and was able to obtain some information at that time regarding the preliminary plans and operations which were in hand to bring about production of the Bren gun at the Royal Small Arms factory in England. I returned to Canada in August of 1936 and since that time have been employed on engineering work in the Ordnance department in Ottawa, the Department of National Defence.

By Mr. Bercovitch:

Q. Before going to England though you were employed as an ordnance mechanical engineer in Canada?—A. Yes.

Q. In connection with repair, maintenance and other matters pertaining to artillery equipment and motor transport?—A. That is right.

Q. That was in the summer of 1934; how long were you there?—A. I was there May, June, July and August; I was four months with the ordnance department as mechanical engineer.

Q. Then you were sent to England?—A. Yes.

By Mr. MacNeil:

Q. And as you state spent a year at the Royal Small Arms factory at Enfield?—A. Yes. One thing I neglected to mention was the fact that I returned to England in the summer of 1938 and spent a further three months particularly on inspection of production of Bren guns. The Royal Arms factory was then just entering on production of the Bren gun.

Q. That was in 1938?—A. That was in 1938.

Q. What experience had you of Bren guns in 1936?—A. I went into the Bren gun from the point of view of its design and more as a weapon, as a machine gun, and then with the actual production people I was able to follow them during their preliminary plans. They were then engaged in laying out methods by which they proposed to produce the Bren gun; were purchasing machines, writing up their specifications and that sort of thing to be a part of their existing equipment.

Q. Were you present at any tests of the Bren gun?—A. Not the official tests before the adoption. You see the Bren gun was adopted in 1935 by the British War Office, and I was not present at any of the competitive tests which were carried out as between the Bren gun and other makes. I naturally saw the Bren gun under tests, under various experimental tests, which were being carried out preliminary to going into production.

Q. Before you left Canada were you aware that the Bren gun had been adopted as a standard weapon for Canadian forces?—A. The Bren gun had not been adopted by either the United Kingdom or Canada before I left Canada. It was adopted during the period when I was in England.

By Mr. Bercovitch:

Q. I understand that in England you were concerned with the inspection of manufacture and production of guns at Woolwich; is that right? —A. Yes.

By Mr. MacNeil:

Q. At Woolwich are they making any component parts for the Bren gun?—A. No, there is no machine gun work being done at Woolwich. They make certain accessories by the way of such things as mountings for machine guns, mountings by which machine guns are fitted to armoured plated vehicles, and the like, but they do not make anything by way of small arms or machine guns in Woolwich.

Q. When you say you examined the Bren machine gun as a machine gun before you proceeded to deal with the machine lay-out—may I ask what type of weapon it is, for what purpose it is designed?—A. I beg your pardon?

Q. I am asking you, what type of weapon is it and for what purpose is it designed?—A. The Bren light machine gun is a light portable weapon used primarily by the infantry in the role which was previously occupied by the Lewis gun. At the same time the Bren gun can fulfill a role which never could be played by the Lewis gun in that it has a mounting, a tripod mounting, whereby it can be set up and used for fixed line of fire playing the role of a Vickers gun in emergency. However, it cannot be said that the Bren gun can replace the Vickers; it is not intended to do that. The Vickers gun is a heavy machine gun used for sustained fire and for set positions; the Bren gun is used primarily as a portable weapon. It weighs only some twenty-five pounds, and it is used for fixed lines of fire in fixed positions only in emergencies.

Q. To what extent is it capable of sustained fire?—A. Well, that is a very flexible quantity. The chief difficulty with the Bren gun in sustained fire is the heating of the barrel, but being provided with multiple barrels, by cooling hot barrels in water the gun can be fired for quite a prolonged period.

Q. First of all, what is the rate of fire?—A. The rate of fire for bursts, say for one magazine, is a rate of about 450 to 550 rounds per minute. The actual rate at which a trained crew can fire the gun will amount to possibly 210 to 225 rounds in a minute; that is, by changing the magazine.

[Capt. M. P. Jolley.]

Q. By continuous fire; that is, by continuously changing the magazine—how many rounds can it fire before the barrel must be changed?—A. If it is fired as rapidly, of course, as possible it fires about 200 to 250 rounds before the barrel must be changed.

Q. And the magazine contains how many rounds?—A. Thirty rounds.

By Mr. Homuth:

Q. Tripods are not being made at Inglis plant?—A. No provision is made in the contract with the John Inglis Co. Limited for the manufacture of tripods. They are what is termed an accessory to the Bren gun and they are not included in the contract.

By Mr. Green:

Q. Is there a distinction between spare and component parts?—A. Yes.

Q. Spare and component parts are being fully manufactured at the Inglis plant?—A. Yes, spare and component parts are definitely component parts of the Bren gun. The tripod is an accessory which is not an actual part of the Bren gun. In other words, it is not essential to the use of the Bren gun in its primary role.

By Mr. MacNeil:

Q. What about the bipod?—A. That is an essential detail of the gun. Having that bipod assembled to it it is component part of the Bren gun the same as the barrel or any other essential part.

By Mr. Green:

Q. How many barrels are necessary?—A. The normal issue at the present time is two barrels per gun.

Q. How many clips?—A. Twenty-five clips per gun.

Q. Those are all essential for the successful operation of the gun?—A. Yes.

By Mr. MacNeil:

Q. What are your duties in connection with the Bren gun; first of all, with regard to the preparatory period and then with regard to the production period?—A. At the present time I am a mechanical engineer in the ordnance department in charge of the technical supervision of the preparatory period. It is proposed that I proceed to Toronto as soon as it is necessary for me to do so and there I will be in charge of a staff of inspectors and other personnel who will supervise the technical aspect of the production of the Bren gun.

By Mr. Green:

Q. You and Mr. Gillespie are really the only two Bren gun experts in Canada?—A. I would hesitate to call myself an expert. I was the first one in Canada to have intimate knowledge of the Bren gun and to have training or to have experience in the manufacture of that type of weapon. Mr. Gillespie is a methods and planning man. In other words, his specialty is in determining how a particular piece of material is to be dealt with in production. That is, if a radius is to be cut, he says how it is going to be set up, or how it is going to be held in the fixture on the machine, and what is the best type of procedure to remove that material; that is Mr. Gillespie's specialty.

By Mr. Slaght:

Q. Do you know of any greater expert in that field in the Empire?—A. No. As to units of actual planning of operation I should say that Mr. Gillespie has had more experience and had possibly more responsibility, particularly with respect to the machine gun, than anyone in the British Empire, because

Mr. Gillespie passed on all the operations lay-out sheets which were prepared at Enfield, and those are our Bible as far as production methods are concerned in this country. We use the Enfield operation sheets and we remove material in the same sequence of operations and by the same methods as is done at Enfield.

By Mr. Green:

Q. You are the only one in the department who knows anything about the Bren gun?—A. From the point of view of production and the actual gun as a mechanism and the inspection of the gun I would say that I knew more than anyone else in the department.

Q. You are also an authority on other types of armaments such as the twenty-five pounder field action and heavy machine gun equipment of that kind?—A. No, my experience has been limited to the smaller type of weapon up to 4.5 inch calibre.

Q. Rifles and machine guns?—A. Rifles and machine guns, anti-tank guns and the like. I would like to say now that I am not an authority on the tactical use of weapons. I am a technical officer, an engineer; the tactical use of weapons is in the hands of the general staff, the soldier.

Q. You are a production man?—A. A production and inspection man.

By Mr. Isnor:

Q. Your study of the Bren gun covers a period of three years, doesn't it? —A. It is four years now since I first met the Bren light machine gun. I first came into contact with it in 1935 in a very general way. My intimate study of it began in 1936, which gives me three years.

Q. In June of 1936?—A. Yes.

By Mr. Bercovitch:

Q. And you demonstrated the gun to senior officers of the national defence headquarters in Ottawa, did you not?—A. That was in December of 1936.

Q. Did you also demonstrate the gun anywhere else?—A. Yes, I demonstrated and fired the gun at the Connaught ranges for the senior officers of course in September of 1936. At that demonstration many of the senior officers of the national defence headquarters were present, and it was the first opportunity they had had to see the gun. A little later on I went to Halifax to give a talk on the gun and a firing demonstration to the Canadian Infantry Association who were meeting in Halifax. I think that was in October of 1936.

Q. Did you demonstrate it elsewhere?—A. Yes; I demonstrated it, I think in Belleville and Kingston. I think that was about the limit of my demonstration.

Q. Winnipeg?—A. Yes, sir. I am sorry I forgot that. I demonstrated in Winnipeg.

Q. To whom?—A. I demonstrated it at those places. At Belleville and Kingston I demonstrated it to the officers of the non-permanent militia chiefly. In Winnipeg I concentrated more on the permanent force units who were to be issued with the gun at that time; and I got them started off on the method of handling and just what to expect from the gun.

By Mr. Green:

Q. How many Bren guns are allotted to each infantry battalion?—A. Scales of issue and that sort of thing is something which must be obtained from the general staff. It does not come within my field at all.

[Capt. M. P. Jolley.]

By Mr. Brown:

Q. Have you been consulted regarding the manufacture of guns by the Department of National Defence?—A. You mean with respect to ways and means of getting Bren guns?

Q. Yes, or the possibility of manufacturing them?—A. Of course, following my return from England, I had many discussions with various officers of the department; and I was able to tell the department what would be expected by way of—I mean, what type of facilities would be required to produce a weapon such as the Bren gun.

By Mr. MacNeil:

Q. Did you make any recommendation as to the method of manufacture?—A. You mean as regards the policy or the procedure to actually get Bren guns?

Q. Yes.—A. No. That was not within my field. I will say now that I, at the request of one of my superior officers, made an analysis of ways and means of getting Bren guns, which was simply a study of the advantages and disadvantages of the various methods which I could see of procuring Bren guns for the Canadian service, in the light of the knowledge which I had available or the experience which I had had.

Q. Did you not submit a report demonstrating how this gun could be made in government arsenals?—A. Yes; following my return from England I prepared a report which showed the general type of equipment and facilities required for the manufacture of guns of this type.

By Mr. Brown:

Q. What date would that be? Would you tell us that approximately?—A. That would be August or September, 1936.

By Mr. Bercovitch:

Q. Was your report with special reference to the Bren gun?—A. No. I prepared my report to show the type of equipment, the type of factory and the general facilities and various departments that would be required to go into production of practically any type of machine gun up to about .5 inch calibre; I mean, the type of equipment and the general departmentalizing of the factory would be the same irrespective of what gun was to be produced, generally speaking.

By Mr. Green:

Q. You prepared plans for a government plant, did you not, for the manufacture of small arms?—A. No, sir; I mean, not definite plans. I had not any adequate information to do anything of that kind.

Q. Well, you submitted a proposal concerning the manufacture of small arms in a government arsenal?

Mr. BERCOVITCH: No. He said he submitted a report. It was not a proposal, as I understand it.

The WITNESS: It was not a proposal. I submitted a report showing lists of equipment, estimated costs, the type of factory, the floor space requirements and that sort of thing, which would be required or which could be anticipated if small arms up to .5 inch calibre were to be manufactured in Canada.

By Mr. Slaght:

Q. Those requirements would apply, I take it, whether it was done in a government arsenal or by private manufacture, would they not?—A. Yes. My report had nothing to do with the location or the personnel undertaking production.

By Mr. Green:

Q. What was your estimated cost of setting up a small arms factory?

Mr. BERCOVITCH: I do not know if there is any estimate.

Mr. GREEN: He said he submitted the estimated cost.

The WITNESS: Estimated cost of the type of machines.

By Mr. Green:

Q. I beg your pardon?—A. Only the types of machines. That is, there is quite a large number of machines for small arms which are not in common use in this country; probably not in use at all. I was able to get estimated prices while I was in England on that type of equipment and was able to list the types of equipment that would be required and show the cost per unit and that sort of thing.

Q. Did you show the total estimated cost of setting up a plant?—A. No. At that time I did not have the machine hours, the man hours, or the production data required to lay out or to estimate or to determine the number of machines or the actual complement of equipment that would be required to produce on any given scale.

By Mr. MacInnis:

Q. Was your report filed during the royal commissioner's investigation?—A. I do not think that was.

Q. The plans were filed, were they not, or the drawings? I see, on page 7 of the commissioner's report, that exhibits 18 and 19 are the drawings.

Mr. FACTOR: The drawings of what? Of the Bren gun?

Mr. MACINNIS: Drawings of the small arms factory that he prepared.

Mr. ISNOR: Exhibits 18 and 19.

Mr. FACTOR: That would only involve the equipment, the machinery.

The WITNESS: Those were two sections of the factory which I did lay out in detail. They were the ancillary shops; that is, browning and forging shops and that sort of thing. I was able to determine that fairly closely because that would be the same for any type of production on a moderate scale. Exhibit 19 is a drawing of the tool room which would be the same—I mean, which I could determine at that time. In other words, the number of machines and equipment in a tool room is not determined by the actual weapon to be produced or by the exact number of weapons to be produced.

By Mr. Isnor:

Q. In other words, these drawings were not prepared particularly for the Bren gun production?—A. No. They were the ancillary shops and tool room which could be expected to be installed for a small arms factory.

By Mr. McInnis:

Q. But they could be used or adapted to Bren gun production?—A. Yes, exactly.

By Mr. MacNeil:

Q. Did you not go over the plants at Valcartier and Lindsay to determine whether or not they would be suitable for the manufacture of small arms?—A. You are speaking now of the general plans which I filed during the commission for a complete arsenal scheme at Valcartier, I think. There are no buildings in Valcartier.

Q. In the exhibits there is a report from you as to the suitability of these.—A. There is no building at Valcartier.

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Q. I mean the dominion arsenal at Quebec?—A. At Quebec? No. I never reported on the dominion arsenal at Quebec as being suitable or otherwise for the manufacture of small arms. The dominion arsenal at Quebec is a munition manufacturing centre and logically it would not be equipped or suitable for the manufacture of machine guns.

By Mr. Green:

Q. It would have been possible, I suppose, to set up a plant for the manufacture of Bren guns in the form of a government factory just about in the same way as the Hahn plant has been set up in Toronto, would it not?

Mr. BERCOVITCH: Everything is possible.

Mr. GREEN: Do not interrupt, please.

Mr. BERCOVITCH: I am not interrupting. But when you ask the witness whether it is possible or not, I say everything is possible.

The WITNESS: Mr. Green, I have an unfinished question yet to answer, I think. Shall I answer it?

Mr. BERCOVITCH: Go ahead.

The WITNESS: With regard to the Lindsay arsenal, I may say that I did survey that. I visited Lindsay and I also surveyed the plans with respect to whether or not it would be suitable for use for small arms production. I think my final report on Lindsay, is filed as one of the exhibits of the royal commission. I am not just sure where it is now. Oh, yes, it is exhibit No. 35 of the royal commission.

By Mr. MacNeil:

Q. Were you requested as the departmental expert to survey any other industrial plant in Canada to determine its suitability for the manufacture of Bren guns?—A. One other.

By Mr. Green:

Q. Which plant was that?—A. I hesitated to name that plant during the royal commission, but I think it is quite all right for me to do it now. It was the Cooley Arms Plant at Cobourg, Ontario.

By Mr. MacInnis:

Q. Did you prepare a report on that plant?—A. Yes, I did.

Q. Was it filed as an exhibit?—A. Yes. That is that exhibit 40.

By Mr. Green:

Q. You also examined the C.N.R. shops, did you not?—A. I did not visit the C.N.R. shops. You will find that fact presented in exhibit 35. I examined the drawings which were obtained from the C.N.R. offices in Ottawa. I had a complete file of the drawings of each of the St. Malo and Transcona shops available for study in my office.

By Mr. Isnor:

Q. Did you have an opportunity to study any Nova Scotia plants?—A. No, Mr. Isnor.

Mr. GREEN: Did they have any?

Mr. ISNOR: Yes.

By Mr. Bercovitch:

Q. I understand you advised against the use of the C.N.R. shops for Bren gun production?—A. In my report I say that these are locomotive and railway carriage shops.

Mr. HOMUTH: They would be better than an old boiler shop.

By Mr. Bercovitch:

Q. You said: "This means that the dimensions of the shops available are not compatible with those required for the installation of light machinery and fine machining operations required for Bren gun production." Is that correct?—A. Yes. Those are my words.

By Mr. MacNeil:

Q. You were not requested to examine the plans of any plant engaged in the manufacture or fabrication of precision steel?—A. No; I was not specifically asked to inspect or to report on any particular plant.

By Mr. Bercovitch:

Q. Coming back to your report on the C.N.R. shops at St. Malo, Quebec, page 2 of exhibit 35, you say: "Due to the high roof clearances and general construction of the buildings, it is doubtful if existing heating facilities would be adequate to maintain an inside temperature of 65°F., which is required for machine shops carrying out fine machining operations." Is that correct?—A. Yes.

By Mr. Brown:

Q. That would be without alterations?—A. Well, on examining those plans, I found very large, voluminous buildings; certainly the building floor space would not be required. I mean, the floor space is there, definitely; but the idea of putting in fine precision manufacturing equipment in these large buildings which were built to handle locomotives and railway carriages and are not meant to be maintained at a comfortable temperature such as is required for precision work—the whole idea just did not appeal to me at all. I mean, it is a practical proposition. It is not the sort of thing that a production man would pass upon.

By Mr. Bercovitch:

Q. You are speaking always of the C.N.R. shops in Quebec, are you?—A. I am speaking of the C.N.R. shops in Quebec, at St. Malo.

MR. BROWN: Of course, with the expenditure of money alterations could be made in the buildings.

MR. FACTOR: What would you do after the production of the gun is completed? Change them back to C.N.R. shops?

THE WITNESS: You could install tremendous heating facilities which would maintain the temperature; but would it be economical to do that?

By Mr. Homuth:

Q. Did you examine the John Inglis plant?—A. No. I never visited the John Inglis plant until May, 1938.

Q. Not until after the contract had been given?—A. That is right, Mr. Homuth.

Q. But you, of course, have visited it since. The John Inglis plant, without the addition of the new buildings, was pretty much on the same principle as the railway shops, with tremendous high ceilings and so on?—A. Those who have visited the plant, I think will be familiar with it. I do not know whether you have seen it.

Q. Not officially.—A. There are several buildings on the John Inglis property. One, for instance, is a large plate shop. That large plate shop corresponds very closely to the type of building I was discussing in my report on the C.N.R. shops at St. Malo and Transcona. That large plate shop is not

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being used in any capacity for Bren gun manufacture: Another shop, a large shop on the John Inglis property, is a machine shop, a large fully equipped machine shop for medium and heavy work. That is more of the type which is in use and which I was discussing in the C.N.R. and St. Malo shops. It is somewhat of a smaller building than the C.N.R. shops, generally.

Q. But the fact of the matter is, that, in order—

Mr. ISNOR: Why not let him finish?

Mr. HOMUTH: He was.

The WITNESS: No.

Mr. HOMUTH: I beg your pardon. Go ahead.

The WITNESS: The ordnance building at the John English Co. was a small light building before it was rebuilt—before it was reconditioned and had additions made to it. It is a smaller, lighter type of factory building than either the other two on the property or of the C.N.R. shops which I was discussing in my report here.

By Mr. Homuth:

Q. The fact of the matter is that in order to have a building in which they could keep the proper temperatures, a building suited for the manufacture of the Bren gun, they had to build the addition to the Inglis plant?—A. They had to, first of all, recondition their existing building in order to provide the floor space which they required. They had to build a wing at one side and an extension at one end; and they had to put in special heating equipment by way of individual thermostatically controlled unit heaters. That, of course, has all been done by the company. The company provided all that.

By Mr. Bercovitch:

Q. Am I right in saying that you reported against the Lindsay arsenal, the C.N.R. shops at St. Malo, Quebec, and the C.N.R. shops at Transcona, Winnipeg, for the manufacture of Bren guns?—A. Well, Mr. Bercovitch, my report, exhibit 35, could hardly be said to report against the use of the Lindsay arsenal. I presented there an analysis of what I thought to be the advantages and disadvantage of using such a unit.

Mr. GREEN: I wonder if you would read your report on the Lindsay arsenal, Captain Jolley?

Mr. BERCOVITCH: Do you want him to read the whole thing on the record?

Mr. GREEN: Yes.

The WITNESS: Exhibit 35, memorandum 1—

By Mr. Green:

Q. This report sets out at the top that "consideration has been given to the possibility of employing the following existing government properties for the production of small arms, particularly Bren light machine guns"?—A. Yes.

Q. Will you read your report about the Lindsay arsenal and make any comments that you wish to make?—A. All right. The report reads:—

LINDSAY ARSENAL

As a result of an actual visit made to Lindsay arsenal in November, 1936, and a careful study of the plans and files concerning same, it is considered that, in general, the existing buildings are of a type suitable for the production of small arms and that, with possible minor exceptions, sufficient floor space now exists for the production of Bren guns on the scale envisaged for Canadian requirements.

The advantages and disadvantages of using Lindsay arsenal for Bren gun production would appear to be—

Advantages—

- (i) Buildings are in existence and are of a type and capacity adaptable for the production of Bren guns.
- (ii) Buildings are well constructed, lighted and ventilated.
- (iii) Ample building area exists for expansion.

Disadvantages—

- (i) Existing buildings would require repairs and alterations to the extent of approximately \$100,000. In addition, the cost of necessary alterations to the foundry and rolling mill, for which estimates are not available, would be appreciable.
- (ii) The labour market is somewhat unfavourable for Bren gun production, due to lack of industries in Lindsay employing skilled labour of the type required.
- (iii) Many buildings of the filling group would be superfluous.

Q. What do you mean by "filling group"? Is that for filling shells?—
A. The Lindsay arsenal was designed and laid out for the manufacture of small arms ball ammunition; that is, for cartridge ammunition, .303 cartridge ammunition. That was its sole function while it was in operation. There were a great many buildings around the property there which were laid out as danger buildings—and properly guarded, properly protected—for filling the cartridge cases and the caps and that sort of thing; in other words, the handling of explosives.

By Mr. MacInnis:

Q. May I ask a question there? These buildings would not be required in the production of the Bren gun, would they?—A. No, not of the filling group.

Q. They are superfluous?—A. Yes.

Q. That is the point I was making—that they were superfluous. They would not necessarily be a disadvantage. They just would not be used.—
A. They just might be in the way. That is the only idea I had in bringing out that point.

Mr. BERCOVITCH: Continue, Captain Jolley.

By Mr. Green:

Q. Your point about the labour market as a disadvantage could easily be overcome by bringing in workmen, could it not, such as was done in the case of the Inglis plant?

Mr. BERCOVITCH: Oh, no. I object to that. It is not accurate at all.

Mr. FACTOR: The workmen were all living in Toronto.

Mr. BERCOVITCH: Oh, yes. Major Hahn stated his testimony that one of the considerations for acquiring that plant was that all the key men were available.

Mr. HOMUTH: The key men; quite so. But their employees come from Kitchener and all over the country.

Mr. BERCOVITCH: Yes. But all the old employees of the John Inglis Company were available to him, to a very full extent.

Mr. BROWN: They were scattered all over the country. They were not in Toronto.

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Mr. BERCOVITCH: They might have been scattered all over the country, but they were ready to return to work. The question that has been put is unfair.

Mr. GREEN: The Inglis company employees were all boiler makers. They were not armament makers.

Mr. BERCOVITCH: They were not skilled in the manufacture of precision steel.

Mr. GOLDING: They were not boiler makers. They were machinists, and first class ones.

Mr. BERCOVITCH: I think if the witness is allowed to go on with his report, we might get it into the record this morning. Otherwise we never will.

Mr. GOLDING: Mr. Anderson knows what I say is true. He is from Toronto.

The CHAIRMAN: I hope you gentlemen do not expect to read all of what you said in the record.

By Mr. Green:

Q. I should like to return to my question, about the labour market disadvantage. Is it not the fact that men had to be trained in Great Britain anyway? The Inglis Company are having their men in England now.

Mr. BERCOVITCH: Some of them; very few.

Mr. GREEN: May I have an answer to my question?

Mr. GOLDING: Let the witness continue reading about the disadvantages.

Mr. GREEN: I want an answer to my question.

The CHAIRMAN: What is your question?

Mr. GREEN: Captain Jolley knows what it is.

Mr. GOLDING: Read the disadvantages. Continue your report, Captain Jolley. Let him ask questions afterwards.

The CHAIRMAN: Repeat your question, Mr. Green.

Mr. GREEN: All right; go ahead, Captain Jolley.

Mr. BERCOVITCH: Read the report. I think that is the quickest way.

The WITNESS: All right. Continuing:—

(iv) There is no building suitable for use as a forging shop, without extensive alterations being carried out to the existing foundry.

I might say at that point that I envisaged the installation of a complete unit there which would do its own forging.

By Mr. Bercovitch:

Q. Costing how much?—A. Which would do its own forging.

Q. How much would it cost? Do you know?—A. Building a forging shop?

Q. I do not know. You have got in parenthesis "See (i) above." Would that mean that the cost would be \$100,000?—A. No. I had no estimates on reconditioning the existing buildings to convert it into a forging shop.

Q. Go on please.—A. Very well. Continuing:—

(v) Existing machinery, with the exception of a very small percentage now installed, would require renewal.

(vi) Floors of the present foundry and rolling mill would require complete renewal.

Q. What do you mean by "See (i) above"?—A. Well, I said in (i) above, "In addition, the cost of necessary alterations to the foundry and rolling mill, for which estimates are not available, would be appreciable." I am just referring to that.

Mr. GREEN: That figure of \$100,000 set out in the first disadvantage would include all these subsequent repairs and changes.

Mr. BERCOVITCH: No.

The WITNESS: As far as I knew at that time, it would not.

By Mr. Green:

Q. I beg your pardon?—A. As far as I knew at that time, it would not. The \$100,000 estimate, my estimate, I obtained from files in the department, which was broken down to show the various services which would have to be carried out to put the Lindsay arsenal in a capacity to produce.

By Mr. Bercovitch:

Q. It only applied to the buildings and nothing else?—A. Yes.

Mr. GOLDING: Go ahead.

By Mr. Green:

Q. The floor of the foundry is part of the building?—A. These are small points which have to be taken into consideration at that point. Whoever would read it would have to weigh them according to the importance.

By Mr. Bercovitch:

Q. Go ahead.—A. Very well. Continuing:—

(vii) The capacity for the production of small arm ammunition would be reduced to nil.

By Mr. Green:

Q. We make practically all our small arm ammunition at Quebec now? —A. For peace time requirements; I mean, the very small consumption that goes on in peace time is taken care of at Quebec.

Q. We are not making any small arm ammunition at Lindsay at the present time, at any rate, are we?—A. No. It is held as a reserve capacity for small arm ammunition.

By Mr. Bercovitch:

Q. Go ahead, please.—A. Very well. Continuing:—

(viii) The arrangement of buildings would require extensive transportation of components among departments.

I should like to say there that the Lindsay buildings are laid out in relatively small units; one group of machines would have to be placed in one building and another group in another building. Transportation in and out among the buildings would be a big disadvantage. Continuing:—

(ix) If Lindsay arsenal is employed for Bren gun production all facilities required for ancillary services, such as office equipment, would need to be established.

Summary—

As a result of the considerations given above, it would appear that the chief disadvantage in employing Lindsay arsenal for Bren gun production would be that reserve facilities for the production of small arm ammunition in Canada would be sacrificed.

In addition the capital expenditure which would be involved in reconditioning buildings and providing ancillary services for Bren gun production is appreciable and should be considered in conjunction with

rental charges which would be involved in employing existing private facilities. This rental charge cannot be assessed with the information at present available.

The last part of that summary brings out the point that the preceding part of my report points out, that all that exists in Lindsay are buildings. I think that is true. I still stick to that.

Mr. GREEN: That is all that existed at the Inglis plant.

Mr. BERCOVITCH: No, no; nothing of the kind.

Mr. GREEN: I want an answer.

Mr. FACTOR: You are making a statement.

By Mr. Homuth:

Q. In so far as the machinery for the production of Bren guns is concerned, you had no more at the Inglis plant than you had at the Lindsay plant?—A. The Inglis company were in a very advantageous position in having their large machine shop to bring into operation during the preparatory period which we would not have at Lindsay, of course.

By Mr. McCann:

Q. Mr. Jolley, you said a moment ago that you never visited the Inglis plant until May of 1938?—A. That is right.

Q. Had you any knowledge about their plant before that time?—A. No, I had no knowledge of the Inglis plant.

Q. Then how could you make a comparison?—A. I never compared the Inglis plant with any other. I never reported on the Inglis plant one way or another.

Q. You never visited it until May of 1938?—A. That is right.

Mr. GREEN: These questions that have been asked have a bearing on the Lindsay arsenal and the Inglis plant. Are you in a position to answer that question that you did not visit them before May of 1938.

Mr. HOMUTH: I was asking him with reference to machine production.

Mr. MCCANN: I was asking him what knowledge he had of that plant.

The WITNESS: My report is Exhibit No. 35, dated the 19th of November, 1937. I have no knowledge of the Inglis plant at that time and this report was not made in comparison with the Inglis plant.

By Mr. Green:

Q. That was made in 1937?—A. Yes.

Q. During your visit to the Inglis plant in May of 1938 what did you find there in ordnance?—A. I visited it in May. The company was then just beginning to get under way with their plans. They were preparing their plant to put it into shape for the preparatory period.

Q. Was there anything there but the building?

Mr. FACTOR: Why don't you say it was an empty boiler factory and be done with it.

Mr. GREEN: It wasn't even a boiler factory then.

The WITNESS: The old factory building which they were preparing to use had had all the items of machinery which had previously been installed removed, and they were getting it under way with the object of reconditioning the building and adding the necessary extension. The Ross rifle machinery from Quebec was just arriving at the plant at that time and the machine shop, the commercial division of the company, was being prepared to undertake the reconditioning of that unit.

Q. What really was there—

Mr. MCPHEE: Let him finish his answer.

The WITNESS: I think that is all.

Mr. GREEN: What really was there in 1938 was an empty building which was being used as part of the old plant and before it could be used for Bren gun purposes it had to be pushed out and sideways and extended to the end, the then existing facilities being unsatisfactory.

Mr. FACTOR: You certainly did not expect a completed factory with all the equipment and everything in the plant.

The WITNESS: I have described the condition of the building which was being used for Bren gun production. It was an old factory building which had to be reconditioned and extended.

By Mr. Green:

Q. Then there was nothing in the way of equipment except some of the old government Ross rifle machinery?—A. I referred to the machinery for the production of component parts.

By Mr. Bercovitch:

Q. There was other machinery there and available which could be used for the manufacture of the Bren gun?—A. There was the machinery of the commercial division of the plant which was being brought into condition with respect to preparing the Ross rifle machinery for use in the production lines, and also for use in preparing such things as fixtures, tools, gauges and specially built pieces of apparatus which would later be required for use in the plant.

By Mr. Green:

Q. When you went there in May of 1938, which was two months after the Bren gun contract was signed, even in the commercial division they were not yet in a position to go ahead with the actual work, and the Ross rifle machines were just being got ready to be put in position for work?—A. The Ross rifle machines were then going in, at that time, they were working on that as much as they could.

Q. They were just beginning to get their commercial division ready for operation?—A. I did not comment on their commercial activities at that time; I mean, I am just speaking of their commercial shop as applied to the re-conditioning of the Ross rifle machines.

By Mr. Bercovitch:

Q. Are we going to have the rest of this report of Mr. Jolley's on the record, or are we not? Just a minute, Mr. Jolley. Are we going to have this report in the record or are we not? I think it would be far better for us to have the rest of this report in the record. Do you want that report in the record, or do you not?

Mr. GREEN: I don't particularly want it.

Mr. HOMUTH: The fact of the matter is you never visited the Inglis plant or reported on the Inglis plant, as to its advantages or disadvantages for the production of the Bren gun prior to the signing of the contract?

The WITNESS: That is correct.

Mr. BERCOVITCH: That is obvious.

Mr. GREEN: You are the only Bren gun expert in the department—

Mr. GOLDING: Mr. Chairman, just before this matter is dropped, and before you go on to something else, just a few moments ago when they were speaking about the Inglis plant Mr. Green made the statement that only boiler-makers

[Capt. M. P. Jolley.]

were employed in the plant. I can hardly understand anybody going through that plant saying that the machine shop is not one of the best, and to hear it being called a broken down old boiler factory I do not think is fair. This thing goes out all over the country, and I can hardly understand anybody going through that machine shop and seeing the equipment there and then coming down here and making a statement like that, unless it is for the purpose of trying deliberately to injure that company's commercial business; that sort of thing is just too bad.

Mr. GREEN: I was only joking about it being an run-down old boiler factory.

Mr. GOLDING: You have been doing that sort of thing right along.

Mr. BROWN: You would not say that the machinery is up to date, would you?

Mr. GOLDING: Up to date—for the purpose for which it is being used you can't find any better.

Mr. BROWN: It seems to be very old.

Mr. BERCOVITCH: I would like to have the rest of that report read into the record. We started in with the section of the report dealing with the Lindsay arsenal which Mr. Green asked for, let us have the rest of it now.

The CHAIRMAN: We will read the rest of the report into the record.

Mr. BERCOVITCH: He read that part of the report which relates to the Lindsay arsenal. The rest of the report relates to the C.N.R. shop at St. Malo and the Transcona shops in Winnipeg—I refer to pages 2 and 3 of Exhibit No. 35.

Mr. GREEN: We might deal with the Lindsay arsenal first, for the sake of keeping the record clear.

By Mr. Isnor:

Q. Now, Mr. Jolley, you said that you were doubtful that there were experienced men in Lindsay to carry on the production of small arms?—A. I said that the labour market is more unfavourable for Bren gun production. In other words, there are not located in Lindsay existing industries which employ men of this type. I mean, we need about 1,000 men to successfully produce the Bren gun.

Mr. ISNOR: Major Hahn sent me this statement: I immediately ascertained that almost the entire personnel of the old company would be available if we re-opened. This was logical due to the fact that most of the employees of the old company regarded the company as an institution and some purchased their homes in Toronto. It was made known to me that if I made the purchase a big majority of them were anxious and willing to resume operations in the plant with which they had been so long identified. That would be a major factor in production, would it not; knowing that experienced men were available

Mr. BROWN: Experienced for what though?

Mr. ISNOR: Now, just a minute, let the witness answer.

The WITNESS: I have no doubt that in taking over a factory which had been closed down the first thing one would ask would be to see whether men who were experienced in that shop, skilled men, were available to come back.

By Mr. Green:

Q. These men were not skilled in the making of the gun?—A. No.

Q. So that the situation at Lindsay in the government arsenal and the situation at the Inglis plant was not so very much different at the outset, was it?—A. I think it was, Mr. Green. There are a great many factors to be considered in setting up a factory. Suppose a group of men get together to

start a factory I imagine they would not just go out and buy the cheapest building they could find in any location at all, they would study such things as whether the location which they are looking over fits in with industries which are going on in that locality. If that is the case they have available a labour market in which they can grow.

Mr. McPHEE: Order, Mr. Chairman, we can't hear.

The CHAIRMAN: Order, gentlemen.

The WITNESS: Other factors to be taken into consideration are availability of technical services, housing conditions and community services, and that sort of thing. Now, as regards the labour position in Lindsay, suppose that a factory were set up there to employ 1,000 men, with quite a high proportion of very skilled men, practically all the skilled men would have to be imported.

By Mr. Green:

Q. How many men were there there on that work?—A. I haven't the figures on the exact number of employees.

Q. There must have been a lot of technical employees there during the war because they made a lot of supplies there, did they not?—A. I understand they commuted from Peterborough and places like that.

Q. There are only 150 employees at the Bren gun factory in Toronto now, according to the information we have before us.—A. Those 150 men are practically all skilled men, at the present time. I can't imagine how very many of these 150 men could be found in Lindsay. They would have to be brought into Lindsay and set up their living quarters there, and then later on as production continues further men, some skilled, some semi-skilled and some unskilled, would have to be added to that staff going up probably to a total of 1,000 workmen, and a very large proportion of these would have to be brought into Lindsay from outside.

Q. You would say that these armament factories should all be located in big cities?—A. I should say they should be located in localities best suited to that particular type of production which you might be undertaking.

Mr. BROWN: You take in the city of Brantford, I don't know what they are manufacturing there, but they have been drawing a great many of their skilled mechanics from Hamilton. In the city of Galt it is the same thing. These skilled workmen go where work is to be found. At the National Steel Car plant up there at Malton they are coming from all over the country.

Mr. FACTOR: Skilled men for the Inglis plant were available in Toronto. One hundred and fifty skilled men are now employed there.

Mr. HOMUTH: When you say that, have you definite knowledge that they are all from Toronto?

Mr. FACTOR: I would say they are, all but a half dozen men perhaps.

Mr. BERCOVITCH: Most of them were former employees of the John Inglis plant.

Mr. HOMUTH: Oh no, they came from the liberal part of the country.

By Mr. MacInnis:

Q. Did you see the report prepared by the departmental inspector at Toronto on the John Inglis plant in October of 1936?—A. I did not see that, Mr. MacInnis, until last autumn, during the sittings of the royal commission.

Mr. MACINNIS: Part of that report, Exhibit 73, reads as follows:—

Mr. BERCOVITCH: Before you read that report, Mr. MacInnis, I think it would be far better to conclude with this Exhibit 35 with which we were dealing. Mr. Green wanted it in but apparently he has changed his mind. Have you finished with it, Mr. Green?

[Capt. M. P. Jolley.]

Mr. GREEN: I have, in connection with the Lindsay arsenal.

The CHAIRMAN: Are you finished with your questions in connection with Lindsay?

Mr. GREEN: Yes.

Mr. BERCOVITCH: Then let us read the rest of that report.

By Mr. Green:

Q. The Lindsay arsenal could have been used not only for the manufacture of Bren guns but also for the manufacture of rifles and pistols and all small arms?—A. The buildings were there, that is all that existed in Lindsay; and some of the buildings were not there, the actual factory buildings were there but the offices had to be rebuilt, that building had been burned a few years ago.

By Mr. Bercovitch:

Q. And you had all the disadvantages mentioned on page 1 of your report, Exhibit 25, before the Davis commission?—A. I really could not add very much or take very much away from those advantages and disadvantages.

Q. But you had all the disadvantages mentioned in your report?—A. Exactly.

Q. Let us go on with the C.N.R. shops.

By Mr. Isnor:

Q. About Lindsay, do you know how many years it has been closed?—

A. In 1921, I understand it closed approximately at that time.

By Mr. Green:

Q. What had they been manufacturing there?—A. Small arms munitions only; that is 303 cartridge ball ammunition.

Q. Did they make shells at all?—A. No.

Q. Were there plans for the extension of the Lindsay arsenal?—A. Not to my knowledge, Mr. Green.

Q. Did you examine the arsenal at Quebec?

Mr. McGEER: Let us deal with Lindsay. I would like to put one question in connection with Lindsay before we go on to Valcartier.

By Mr. McGeer:

Q. Captain Jolley, as I read the reports of the interdepartmental committee which were presented to this committee the Lindsay arsenal was the reserve emergency plant for the production of small arms munitions?—A. That has always been my understanding, and I made particular reference to it in this report. That was not my own idea I had read in the files of the department that very thing.

Q. As a matter of fact as I read the reports to the interdepartmental committee and the records of the minutes of proceedings the proposition was put up why was the Lindsay arsenal not used for the production of Bren guns, and the answer was that the Lindsay arsenal is a small arms munitions plant, it is constructed for that purpose and equipped for that purpose, and in the event of an emergency it will be used for that purpose, and that to put the Bren gun production in there would have meant the destruction of your emergency small arms munitions plant?—A. Yes, that is quite true.

Q. And the reason why the Lindsay arsenal plant was not considered by the Department of National Defence was because it was considered a necessary emergency plant for the production of what it had been built and equipped to produce, namely, small arms munitions.—A. I cannot say very much about that; that would be for other officers of the department to say.

Q. You dealt with it in your report?—A. I brought that out, along with other technical matters.

Q. What did you say in your report on that—I forget what page of your report refers to it?—A. I said, as a result of the considerations given above, it would appear that the chief disadvantage in employing Lindsay arsenal for Bren gun production would be that reserve facilities for the production of small arms ammunition in Canada would be sacrificed.

Mr. FACTOR: It is necessary.

By Mr. McGeer:

Q. That is the reason why the Lindsay plant was not used for the production of Bren guns?—A. It is one of the reasons.

Mr. McGEER: An important reason in your opinion.

Mr. BROWN: The buildings are but a small item in the cost anyway.

Mr. BERCOVITCH: Are you through with Lindsay?

By Mr. MacInnis:

Q. I think we had better go back and see what this witness said at the beginning of his report on page one of this exhibit. There, Mr. Jolley, you refer to the further steps needed for the production of Bren guns on a scale necessary to satisfy Canadian requirements. Then, according to this, you were investigating the Lindsay arsenal with the idea it might be used for the purpose of producing the Bren guns?—A. The reason for my making this memorandum was that I was requested to prepare an analysis or report on these three shops from the point of view of presenting what would be the advantages and disadvantages in using any one of these respective centres.

Q. For the production of the Bren gun?—A. For the production of the Bren gun.

Q. And you did that under instructions from the department?—A. At the request of the department.

Q. At the request of the department?—A. Yes, sir.

Q. And then if the department were conserving a certain building or a certain plant for a certain purpose and would not use it for any other purpose, it is not likely that they would ask you to report on it for an altogether different purpose?—A. Of course, I might have been asked to report on this by someone who had not dictated the policies in that respect.

By Mr. Factor:

Q. But the fact remains that if this Lindsay plant were used for the production of Bren guns you would sacrifice the only source of supply of small arms ammunition in the case of an emergency, the reserve source of supply?—A. The only reserve source of supply.

By Mr. Green:

Q. When did you get your instructions to investigate the Lindsay arsenal? You see, your report is dated the 19th of November, 1937, which is after the date that there had been word from England that they were going ahead with the Hahn deal.—A. My report, Exhibit 35, is written at a request which came through about early in November—I could not give you the exact date until I look it up. I haven't the exact date. I am not sure whether it is in the record or not.

Q. It was in November of 1937?—A. Yes, sir.

Mr. FACTOR: Are we through with Lindsay now?

Mr. GREEN: Yes.

Mr. BERCOVITCH: Then, let us read the rest of that report.

[Capt. M. P. Jolley.]

The WITNESS: It reads:—

(b) *C.N.R. Shops—St. Malo, Que.*

Although a visit to the actual site has not been made with a view to determining the suitability of the facilities existing at the St. Malo shops for Bren gun production, complete plans of the buildings, together with the report made by the superintendent of the Dominion arsenal, Quebec, dated 3rd December, 1936 (H.Q.S. 6662) have been examined.

As a result of the examination of this material the following advantages and disadvantages in using the St. Malo shops for Bren gun production are envisaged:—

Advantages:—

(i) Buildings exist capable of providing adequate floor space for the production of Bren guns on the scale envisaged.

(ii) It is understood that the buildings are of good construction with heating and lighting facilities provided.

(iii) It is stated that adequate skilled and unskilled labour is available.

Disadvantages:—

(i) The shops which would need to be used for Bren gun production were built for large machining operations with heavy machinery and for dealing with repairs and construction of locomotives and railway cars. This means that the dimensions of the shops available are not compatible with those required for the installation of light machinery and fine machining operations required for Bren gun production. The roof clearances in the shops are 30 to 50 ft. in height, to provide large overhead cranes for dealing with locomotives and other large components.

(ii) Floors of existing buildings are constructed with railways installed for dealing with locomotives and railway cars. It is envisaged that complete reconstruction of floors would be required for Bren gun production.

(iii) Que to the high roof clearances and general construction of the buildings, it is doubtful if existing heating facilities would be adequate to maintain an inside temperature of 65° F., which is required for machine shops carrying out fine machining operations.

(iv) An appreciable amount of alterations to, and reconditioning of, existing building and facilities would be required to make Bren gun production at all possible. (An estimate of such costs cannot be made without an extensive survey being carried out).

(v) It is doubtful if any appreciable proportion of the existing machinery could be employed for Bren gun production, due to the heavy nature of the operations for which it was installed.

(vi) Existing heavy machinery would require to be dismantled and removed. This would necessitate the provision of storage space elsewhere for same.

That completed my analysis of the C.N.R. shops at St. Malo. I then went on to the C.N.R. shops at Transcona, Winnipeg, as follows:—

No information regarding this plant, other than plans of the buildings, is available. These plans, however, have been examined and the advantages and disadvantages appear to be simliar to these envisaged for the C.N.R. shops at St. Malo.

Summary:—

From the considerations given to the merits and demerits envisaged in establishing production of Bren guns in the C.N.R. shops, St. Malo or the C.N.R. shops, Transconna, it would appear that the disadvantages far outweigh any possible advantages which might be realized. This can be stated to apply in general to other railway shops or existing buildings designed for heavy industry.

In general the establishment of facilities for light production such as is required for Bren guns in existing buildings intended for locomotive works or other heavy industries in preference to light factory buildings which may be erected or rented, may be stated as being comparable to that of an individual establishing his household in an auditorium or other such voluminous building which might be made available to him without charge, other than heating and maintenance, in preference to building or renting a conventional residence.

By Mr. Green:

Q. I wish to ask a question with regard to these railway shops. Would they be suitable for the manufacture of such things as tanks, and also for shells and mountings for artillery—the heavy type of arms?—A. Generally speaking, I would say that the buildings would be of the type required, and that a certain amount of machinery could be used. The railway shops compare better with heavy armament industries such as tanks, carriage mountings and the like, than with light machine gun operations.

Q. Would they be of any use for the manufacture of barrels for artillery?—A. The building space would be there, but it is very unlikely that any appreciable amount of equipment would be installed. I am merely going out of my field now. I have a certain amount of knowledge of production of heavy barrels, but it is very limited. I hesitate to discuss that very freely.

Q. How about the manufacture of shells?

Mr. FACTOR: That has nothing to do with our investigation. These questions are all out of order.

Mr. GOLDING: They did manufacture them in many shops.

Mr. GREEN: We are all trying to get our armament situation improved.

Mr. McGEER: If an emergency came, all these plants could go into operation.

By Mr. Green:

Q. Would the railway shops be of any use in the manufacture of shells?

Mr. GOLDING: They did so.

The WITNESS: I think so. They would have a certain amount of equipment which was used during the war, and they would have a certain amount of standard commercial equipment which would be converted into shell production. How economically that shell production would be, I cannot say; because there have been a great many great advances made in the machining of shells since the war.

By Mr. Bercovitch:

Q. At any rate, all that is outside of your sphere?—A. Exactly.

By Mr. McGeer:

Q. In any event, as a result of these reports that you made, these particular plants were reported against by yourself for Bren gun construction?—A. I prefer to regard those reports as being a presentation of what I consider to be the facts. Someone else would have to draw his conclusions.

Q. What you said was that the disadvantages far outweighed the advantages?—A. Yes.

Mr. HOMUTH: That is in so far as the railway shops are concerned.

[Capt. M. P. Jolley.]

Mr. McGEER: I am talking about the shops upon which he reported.

Mr. HOMUTH: He also reported on the Lindsay arsenal. He did not report to that effect on the Lindsay arsenal.

Mr. McGEER: What he did report was that they would lose the emergency production facilities for the manufacture of small arms.

Mr. HOMUTH: Yes, quite so.

By Mr. McGeer:

Q. In any event, the point I am bringing out is that the advantages and disadvantages of these plants were considered and, according to the report, the disadvantages outweighed the advantages in any of these plants that you reported on. That is correct?—A. Yes.

Q. And you were the technical officer advising the department, whose advice the department is expected to take in this particular regard?—A. Whether they would be expected to take it or not, I cannot say.

Q. Was there any other technical officer advising them in that regard? Did anyone else make a report?—A. No one else made a report of this nature as far as I know.

Q. They put you on the job. They expected that you were competent to make a report, I presume?—A. I expect so.

Q. You were the one man who had a year and three months' experience in production of small arms in England?—A. Yes.

Q. You were the only man here that had that experience, were you not?—A. Yes.

Mr. MACINNIS: He did not report on the Inglis plant.

By Mr. Green:

Q. Your report on the Lindsay arsenal was much more favourable than your report on the C.N.R. shops, was it not?—A. Well, as I said, the buildings at the Lindsay plant were of a type suitable for this type of production and that only buildings existed. I did not and do not consider the C.N.R. shops to be of a type suitable for this type of production.

Q. At the beginning of your evidence you said a few words about Bren gun accessories as distinct from spare and component parts; would you explain to us just what these accessories are?—A. The tripod is the only one of any significance. There are, of course, such things as cleaning rods, cleaning brushes, oil cans, and pressed metal boxes for carrying the magazine.

Q. Is that what they call the chest?—A. No, chest is another accessory, that is the actual wooden box in which the gun is packed and dispatched.

Q. Where are these accessories to be obtained?—A. I really could not say. No action to my knowledge has been taken to obtain them. I presume they are fairly straight forward, nothing very complicated about them. They are all the type of thing that could be tendered on. I expect that is a step that will be taken to provide them. I really could not say, that is something which the purchasing organization of the department must say.

Q. Can we get them in Canada?—A. Oh yes.

Mr. McGEER: There is one thing I think we ought to have from Captain Jolley at the next sitting, and that is a review of the purchases of machinery outside of Canada for the Inglis plant for the production of the Bren guns. That question was raised and I think it should be cleaned up.

The CHAIRMAN: Is it your pleasure to sit at 4 o'clock, gentlemen?

Mr. BERCOVITCH: Better make it 4.30.

The CHAIRMAN: I might mention that the witness' rank is Captain.

We will adjourn until 4.30.

The committee adjourned at 1.07 o'clock p.m. to meet again at 4.30 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4.45 o'clock, p.m.

The CHAIRMAN: Gentlemen, we have a quorum, so we will proceed.

Capt. M. P. JOLLEY recalled:

By Mr. McGeer:

Q. You are conversant with the statement, Captain Jolley, that was made with reference to the purchase of machinery for the setting up of the Inglis plant—page 221 of the evidence—the cost of machines purchased by the Department of National Defence for installation in the plant of the John Inglis Company Limited: Canada, \$55,752.73; England, \$333,949.88; United States, \$278,961.85; and others (non-British), \$20,216.85. Do you know anything about the purchase of this material?—A. Yes, Mr. McGeer. Mr. Chairman and gentlemen, I wonder if I could instead of answering questions with respect to the procedure adopted in the purchase of machinery for the production of Bren guns by the Inglis company, if I could trace in logical sequence, in the sequences which actually took place, the procedure which was adopted.

Q. Just before you go to that, in what capacity did you come in contact with the purchase of machinery?—A. As a mechanical engineer in a technical capacity.

Q. Acting for whom?—A. Acting for the Ordnance branch, Department of National Defence.

Q. What were your duties in that connection?—A. I can bring out my duties in presenting the sequences which were followed in the purchase of machines, if that would be satisfactory.

Q. All I wanted to know was, were you the officer representing the department in the matter of production with respect to the purchase and installation of this machinery?—A. From the technical point of view, yes.

Q. From the technical point of view.

By Mr. Homuth:

Q. Did you have anything to do with the purchase of the machinery outside? Did you pass on the efficiency of the machine?—A. I passed on whether or not—my duty really was to select the lowest priced machine which would do the work that was my capacity as representative of the ordnance branch.

By Mr. Brown:

Q. Do you know whether tenders were called, or how tenders were called?—A. Yes, I know the complete story.

Mr. FACTOR: Would it not be better to let Captain Jolley give the logical sequences of the story.

The CHAIRMAN: That is what Captain Jolley desires to do.

Mr. BROWN: We were just trying to get a start.

Mr. FACTOR: Oh, to build a foundation.

By Mr. McGeer:

Q. That is, as I understand it—you may correct me if I am wrong—I think this might shorten it; you were the representative of the Department of National Defence to see that the moneys expended for the purchase of machinery for installation in the Bren production department of the John Inglis plant were properly expended?—A. Yes, not only that the money was properly

[Capt. M. P. Jolley.]

expended, but it was also my duty to ensure that the machines purchased were such that they would be suitable for the particular type of production that was to be undertaken.

Q. So your duties were two-fold; to see that the money was wisely and properly spent, and to see that the purchases made were suitable for the job in hand?—A. Exactly.

By Mr. Brown:

Q. Had you had any, or much experience in a purchasing department like that?—A. Of course, my position has not been in the category of the purchasing department; that is, I do not send out inquiries or anything of that kind.

Q. That is what I meant?—A. No, I have never been employed in a purchasing capacity at all. I have had a good deal of experience on the selection of machines through tenders which were passed for advice from the technical standpoint.

Q. From the technical point of view?—A. Yes, and not only that, I made a particular point of going into the purchase of machines that are required for this type of production, that is one of the objects of my going to England, to know what equipment would be required for this type of business.

By Mr. McGeer:

Q. You also had to know the situation in regard to prices and sources of supply and deliveries to function in this capacity?—A. Yes. I collected a great deal of information on machines I knew would be valuable before ever undertaking this work.

By Mr. Brown:

Q. Over how long a period of time had you had that experience?—A. In the Department of National Defence I have been functioning in a technical capacity as regards the purchasing of machinery since my return from England in 1936.

By Mr. McGeer:

Q. We might as well clear it up here. There was one reference made to you by the commissioner in the Davis report. He refers to you as having graduated at the age of 23—but he does not state there when you graduated, but in any event you came in contact—

Mr. ISNOR: Yes, he graduated in 1933. I think that is shown.

Mr. McGEER: What page is that?

Mr. ISNOR: At page 5; graduated with honours in mechanical engineering in 1933 from McGill university.

Mr. GOLDING: Let us have the story and then we can follow it up.

Mr. McGEER: No, I think we might as well clear that up here.

Mr. FACTOR: That is at the bottom of page 5.

By Mr. McGeer:

Q. That is one page. Then over on a subsequent page where he deals with Lieutenant Jolley—that is on page 5—Lieutenant Jolley was 23 years old when he graduated from McGill in 1933; so that in 1937 and 1938 when you were dealing with that Bren gun contract you were then—39, was it—no 29?—A. 28 and 29. I am now nearly 30, not quite 30 yet. I have had six years practical experience since leaving the university, continuous experience, and I think it is very concentrated for this type of work; and while I was at the university, and before that, practically all my life, I have been working, doing practical work operating things with my own hands.

Q. Now, the work that you did in connection with this Bren gun contract was the work of preparing reports, was it not? That is, preliminary to the execution of the contract?—A. Yes, preliminary to the execution of the contract I analysed or commented on four different proposals which I understood were sent into the department by Major Hahn and were passed to the ordnance branch and were given to me for my comments by my superior officers.

Q. I see.—A. I took these proposals as so much data, so much material, and attempted to analyse them pointing out what I considered to be either points to clear up or objectionable points in the proposals if any such undertaking were to be proceeded with.

Q. And your analyses took the form of reports that were made to whom?—A. Made to my superior officer, the Master General of the Ordnance, at his request.

Q. That is whom?—A. That was Major John Clyde Caldwell.

Q. And who were his associates, he was the master general?—A. Under the Master General of the Ordnance came the directors; and the director of mechanization and artillery is Colonel N. O. Carr. As a matter of fact until 1938 I was assisting Colonel Carr on various procurement programs, some on motor transport work and others on artillery equipment work. Also under the Master General of the Ordnance is Colonel D. E. Dewar, the director of clothing equipment and manufacture.

Q. I see. As far as your work was concerned you reported on certain features that were referred to you by the Master General of the Ordnance, Major John Clyde Caldwell—A. That is correct.

Q. You made your report to him and then it was his responsibility along with the other officials of the Department of National Defence to use your advice in guiding them as to what should be done in the form of a contract, or the execution of a contract—A. Yes, I think that is correct.

Q. The reason why I would like to draw the attention of the committee to that is this; at page 35 of the report this statement is made:—

Lieut. Jolley impressed me as an earnest and scholarly young man, skilled in his own technical branch. But he was obviously without the business experience and judgment necessary for dealing with a proposed business contract of an intricate nature involving the expenditure of millions of dollars. At the conclusion of his evidence I said to him:—

Q. there seems to be a good deal of responsibility upon you by way of analysis of all the different proposals which were made in your report. Of course I have not evidence yet as to whether or not your reports were acted upon, but I am asking you if prior to December, 1936, you really had any experience in dealing with contracts of this kind?

To which Lieut. Jolley very frankly answered:—

“No, I had not.”

As a matter of fact you were not called upon to settle the terms of the contract, were you?—A. No, definitely not, sir.

Q. Did you ever assume any responsibility in the matter of determining whether the terms of the contract were sufficient or otherwise from a commercial point of view?—A. I had a responsibility to my superior officer.

Q. In regard to the terms of the contract?—A. Not in regard to the legal terms, in regard to certain aspects of the contract which I considered I was sufficiently qualified to comment upon.

Q. But your responsibility was the report upon which your superior officers acted?—A. Exactly, sir.

[Capt. M. P. Jolley.]

Q. And they had ample other channels of information available to them besides yours?—A. Oh, yes.

Q. So that it is quite erroneous to assume that your business experience and judgment were relied upon to determine the terms of the contract, as the commissioner says, of an intricate nature involving the expenditure of millions of dollars. Did you ever realize that that was part of your work?—A. I certainly did not realize that I was passing on a contract involving millions of dollars on my own responsibility. I was writing these analyses for my superior officers. They could use them or leave them as they saw fit. If they contained something of value to them, if I could bring out some thing of use to them I presume they used it. Probably some of the information I brought out they rejected and did not consider. I cannot say.

Q. As a matter of fact you did know that this contract along with the British contract, had to be settled and determined by the experts in the British War Office as to its general terms and as to its specific terms?—A. I know they certainly would not sign a contract without passing on it themselves.

By Mr. Green:

Q. You were making reports on these proposals from Major Hahn, were you not?—A. That is right, Mr. Green.

Q. And these proposals were to quite a large extent questions of big business as there were hundreds of thousands of dollars involved in the setting up of machinery?—A. Yes, but it seems to me there are a great number of things which were matters of reason and common sense.

Q. And you had had absolutely no business experience?—A. Possibly not business experience, but I have made it a practice since my early days to attack any problems which come to me from the point of view of logic and reason.

Q. You could attack a proposal from a practical point of view, but you will admit that you have had no business experience yourself?—A. I certainly never negotiated a contract, I never conducted a business in the manner in which I think you mean, Mr. Green; but naturally in my training, in my contacts and in my work, supervising work, before entering the department and also with the department I gained some knowledge of finance, profit and loss statements, and that sort of thing.

Q. You are simply a technical man trained in the machinery and equipment and things of that type. You have had no experience in the cost end, the actual purchasing?—A. Yes, I have had experience in costing in Enfield. I made a particular point of going through their costing system at Enfield. I spent a good deal of time on that.

By Mr. McGeer:

Q. Was there anybody else in the Dominion of Canada at that time who knew what you knew about the actual problem of setting up a plant to produce Bren guns?—A. I am inclined to doubt that there was anyone.

Q. Was there anyone who had gone over and taken the training and obtained the experience that you had?—A. No.

Q. You did spend, as you have told the committee already, considerable time going into the specific details that were involved in establishing production of this particular weapon?—A. Yes.

Q. There was no one in Canada that had more technical information than you had?—A. No.

Q. And did you advise the department in any other capacity than that of technical officer?—A. I think my reports contained certain things which were not completely technical. My reports on Major Hahn's proposals are in the record and can be read.

Q. Yes?—A. I have added to my experience by four years since then, and it has been rather concentrated experience; and I am willing to let my reports stand as they are. They are in the record and I submit them to you for reading.

Q. What I am dealing with is your responsibility as to the terms of this contract, on which it can be determined whether it was a good business contract or otherwise. What I am suggesting to you is that your reports in that regard were on the technical phases, and that the responsibility for settling the business features of the contract were left with your higher officers?—A. Yes. Those were left with the executive officers of the department, naturally.

Q. I say your duties in connection with the Bren gun contract were on the technical side?—A. My responsibilities definitely were on the technical side, yes.

By Mr. Homuth:

Q. So that—speaking of the contract itself—you had nothing to do with passing on the business end of the contract?—A. No, not at all.

Q. You just dealt with the technical end of it?—A. I dealt with the technical end and I discussed other things. For instance, you will find in my reports that I said if Canada, through the Department of National Defence, is to pay for machinery which is to be installed under a proposal of this kind, she should retain ownership of that and be free to remove it as she saw fit, after the contract expired. That may be interpreted as being partly technical; but it is also partly common sense, I think.

Mr. FACTOR: It is a very wise provision.

By Mr. McGeer:

Q. They adopted that advice in the contract?—A. Whether it was my advice or not, those are the conditions of the contract?

Q. Those are the conditions of the contract?—A. Yes.

By Mr. Homuth:

Q. So that you did pass on other than the technical end?—A. When you say "pass"—I passed to my superior officer.

Q. You gave a report on other than just the technical end of setting up a plant for the production of the Bren machine gun?—A. Well, yes. Features of that kind were in my reports which are in the exhibits.

Mr. McPHEE: Do you not think we had better get on with the statement?

Mr. McGEER: We are getting what we want here now.

By Mr. MacNeil:

Q. You are aware that your superior officers were accepting and going upon your recommendations?—A. No, I was not aware of that; and there was no understanding of that kind.

Q. Subsequently, you would discover that they had accepted your recommendations on many points?—A. The only way I would have of discovering that is to see the final contract and see how many of the points I had suggested were incorporated in that final contract.

Q. Did they accept many of your recommendations?—A. There were certain things which I pointed out which became part of the final contract. I think the most important one is the ownership of the machinery.

By Mr. McGeer:

Q. But the point I had in mind, Capt. Jolley, was this: As far as your position was concerned, it was one of a reporting officer?—A. Yes.

[Capt. M. P. Jolley.]

Q. You had nothing to do with the determination of the contract, either in general or in any of its details?—A. Not at all, Mr. McGeer.

Q. The responsibility of settling the terms of the contract was not yours at all, but that of the responsible higher officers of the department?—A. Exactly, sir.

Q. And anything that you did was as a technical advising officer, plus any incidental recommendation which you made with regard to improving the security of the Department of National Defence in regard to the general terms?—A. That is right.

By Mr. MacNeil:

Q. Was it not true that the Master General of the Ordnance was in poor health during this time? Was he actually actively engaged in the performance of his duty?—A. Oh, yes, very much; he was. To my knowledge General Caldwell was quite well at that time. He was in his office on duty.

Q. Is it not true that, because of your special knowledge in this matter, very unusual responsibilities were placed upon you as junior officer?—A. I do not think it was unusual at all. In ordinary industry in any business transaction of this kind junior officers or junior executive officers of the company may be called in to study particular details.

Mr. FACTOR: To analyse them.

The WITNESS: To study particular details of a contract and make analyses. It does not mean that the suggestions of these junior executives are acted upon. But they may be sound common sense; they may bring out points which are worth consideration; and that is exactly the capacity in which I acted in analysing these various proposals.

By Mr. McGeer:

Q. Was that not the capacity which it was your duty to fulfil? I mean, you were appointed because you were an engineer. You were sent over to this plant to gather this information. As I understand it, your training and your experience with the department, and the special training which the department saw fit to give you, made this type of work your special duty?—A. It seems logical that a proposal of this kind would be sent to me for any remarks or any ideas that I might have on the subject. It would then go to the responsible officers and they would read my ideas—read what I had to say—and either accept or reject them, depending on whether they agreed with general business practice, from the knowledge I had.

Q. You might tell us the position you held with the Department of National Defence?

Mr. MACNEIL: He told us that this morning.

The WITNESS: I did that this morning.

Mr. McGEER: All right.

By Mr. MacNeil:

Q. Is it not true that, as they lacked your technical knowledge, they would be compelled to rely almost completely upon your recommendations in this matter?—A. Not as far as the business terms of the contract were concerned; they certainly would not accept my recommendations or my suggestions as final unless they were in accordance with good business practice.

Q. Did not the business considerations depend very largely upon the technical considerations in certain aspects of the contract?

Mr. McGEER: Oh, well, how can you say that? How can this witness answer that? I mean, it is purely—

Mr. BERCOVITCH: Conjecture.

Mr. McGEER: It is not only conjecture. He does not know. Do you know anything about that, Capt. Jolley?

Mr. GREEN: I think Mr. McGeer should let Mr. MacNeil ask his questions. Mr. McGeer was allowed to ask his.

Mr. MACNEIL: I am quite content to accept Capt. Jolley's answer.

Mr. GREEN: This is not a one-man show, by any means.

Mr. McGEER: No; it will never be a one-man show as long as you are around.

Mr. GREEN: It certainly will not.

Mr. MACNEIL: Hear, hear.

The CHAIRMAN: What is your question, Mr. MacNeil?

The WITNESS: There are a few things in the contract which definitely depend on the technical aspects of the production; but the great majority of the provisions of the contract are matters of contractual procedure.

By Mr. Brown:

Q. Captain Jolley, when was the first time that you met Major Hahn?—

A. I do not think I can give the exact day. It was about the 9th of December—if I remember correctly—1936. It is in the evidence.

Q. I did not know that.—A. I think that exhibit No. 17 reports the occasion on which I first met Major Hahn.

By Mr. McGeer:

Q. Had you met him when he came back from England with the reports on the Bren gun? Is that when you met him?—A. Yes.

Q. When he came back with his first reports?—A. Yes.

Q. He submitted the reports to the department and then he took them up with you, I presume?—A. No. The occasion of my meeting with Major Hahn was that I was asked to come into the office of the Master General of the Ordnance and there Major Hahn and some other officers of the department were gathered. I listened to Major Hahn's story of what he had found in England, and looked at some of the information which he had brought back. Then I wrote a résumé of the meeting for the information of the Master General of the Ordnance, and that is exhibit No. 17 of the royal commission.

Q. What did you think of Major Hahn's information as a report, from a technical officer's point of view?—A. Well, the first thing that appealed to me was that he had definitely been in Enfield and had received his information from the technical officers of the Enfield plant. That was evident. I knew Enfield procedure. I knew the way they set things out. It was perfectly evident that the information of production data which he had obtained came from Enfield and had been properly set out by them for his information.

Q. The reports were fairly complete, were they?—A. Yes. He had a very large amount of data on the production aspects of the Bren gun; that is, by way of labour content, materials, machinery, and more or less just what could be expected in fairly definite terms respecting a Bren gun plant.

By Mr. Homuth:

Q. It was the type of information that any man who had been privileged to go over there and visit the plant and having the entrée that he had could have come back with?

Mr. BERCOVITCH: Assuming that he had the intelligence, of course.

The WITNESS: Well, it was the type of information which could have been obtained only by a man who had had experience in mass production or something of that kind.

[Capt. M. P. Jolley.]

By Mr. Homuth:

Q. Any man with experience in industry and in production, going over there and having the entrée, the opportunity of getting that information, could have come back with the same data as that which he had?—A. Well, I suppose it is possible.

Mr. GOLDING: That is admitting now that he had had the experience.

Mr. BERCOVITCH: They know that. They do not want to say it.

Mr. McGEER: We thought he was only the promoter of a broken down boiler factory.

Mr. HOMUTH: So he was a promoter.

Mr. McGEER: But he was something more than a promoter.

Mr. HOMUTH: He was a very fortunate one.

Mr. GREEN: He was a munitions contractor.

Mr. McGEER: I think it is very fortunate for Canada that we had him.

By Mr. Homuth:

Q. Did you deal with all the clauses of the present contract?—A. No, not at all. As a matter of fact, my activities in connection with the negotiations ended in December, 1937. That was my last meeting with any proposal for the production of Bren guns by John Inglis.

By Mr. McGeer:

Q. As a matter of fact, you had nothing at all to do with the contract which commenced development after November 9, 1937, and which was consummated on March 21, 1938, other than the reports that you had made prior to that time?—A. The reports which I had made prior to that time are on record, and the report which I made in collaboration with Col. Dewar as a result of our meeting of, I think it was, December 9, 1938, is on record. They should be taken for what they are worth.

Q. So whether you had the experience and judgment necessary for dealing with a proposed business contract of an intricate nature involved in the expenditure of a million dollars—and I am quoting from the commissioner's report in that last part—or not, your business experience and judgment was not used in determining the terms of this contract at all?—A. The only way it could have been used was for the executive officers of the department to select from my report the desirable features or points which might not have come up prior to my reporting or during the course of their discussions. Certainly any undesirable features of my reports would be eliminated.

Q. Yes; but you did not have anything to do with settling the final terms of the contract?—A. Not the final contract, no.

By Mr. Brown:

Q. I suppose, Capt. Jolley, you would have been consulted by Major Hahn many a time with reference to the technical aspects of the contract?—A. No. I did not meet Major Hahn, to the best of my recollection, from December, 1936, until December, 1937. I may have met him casually; I mean, I might have met him in the hallway or on the street. But as far as I remember, I had no discussions with him during the period when he was submitting his proposals.

Q. Following that—I suppose you would have following December, 1937?—A. No. I did not see Major Hahn again, as I recall—certainly not for purposes of discussion—until after the contract was signed.

Q. Not until after the contract was signed?—A. No.

Mr. McGEER: Could we go on with the machinery now?

By Mr. Green:

Q. Did the senior officers of the department have an analysis made by anyone else of any of these proposals?—A. I really cannot say, Mr. Green. It is not within my knowledge that they had or had not.

Q. As far as you know, they relied on the analyses from yourself?—A. Well, of course, they were able to make their own analyses, Mr. Green. As far as I know, I mean, they do not go out to anyone else or call in anyone else. But, of course, to begin with, they had their own experience and judgment to rely on; and they also had the important and vast experience of the interdepartmental committee on control of profits to rely upon in passing upon the final contract.

Q. I mean, for analyzing the proposals which Major Hahn put forward you were relied on exclusively?—A. As a preliminary analysis; I was probably the only junior officer to make an analysis. Any other analyses or data which would be brought out would be brought out by the executive officers themselves who would be responsible for the final negotiations.

By Mr. McGeer:

Q. They also had the war office which dealt with the terms of this contract; that is, the British War Ministry?—A. Well, naturally. I think I can say this, that up until November, 1937, I never had any indication that the department was taking Major Hahn's proposals seriously or otherwise. I might say that in the department we get proposals of various kinds. We get inventors proposing to build thought detectors down to concrete proposals for production. As far as I was concerned, I had no information or intimation that the department were taking Major Hahn's proposals seriously up until the time in November when the war office communication came forward to say that the war office were prepared to place an order in Canada. That threw an entirely different light on the proposal from my point of view, because it was really a very significant thing that the war office would be prepared to place an order for 5,000 Bren guns in Canada.

Q. I think we have all we want on that. It comes down simply to this, Mr. Chairman, that the contract was reported on in certain of its technical features by this officer in accordance with his duties. The responsibility for framing the contract was left with the senior officers. They had the assistance of the interdepartmental committee which was set up for that purpose. In addition to that, the ultimate terms of this contract had to meet with the sanction and approval of the British War Ministry. That is the actual situation. So that when it comes down to your part of the responsibility for the whole contract, it was a very small part, if there was any?—A. Yes.

Q. I doubt if it could be said, under the circumstances, that you had any responsibility at all in the actual negotiations in approving, settling and determining the terms of the contract.—A. No, I certainly had no responsibility to the Canadian government or to other than my immediate superior officer. If he was not satisfied with my reports or with what I had said, he could be in a position to tell me what he thought of them or me either.

By Mr. Green:

Q. You had the responsibility of analyzing Major Hahn's proposals and then the senior officer apparently acted on your analyses?—A. Well, acted on or ignored them, whichever they saw fit to do.

Mr. FACTOR: They had the responsibility.

By Mr. Bercovitch:

Q. He had the right to add to or detract from any suggestion you made?—A. Yes.

[Capt. M. P. Jolley.]

By Mr. McGeer:

Q. If he thought your advice was worth anything, he took it; and if he thought it was not, he did not have to take it. But it was not your responsibility to determine the terms of the contract?—A. Not at all, sir.

Q. I do not know that I am right, but I think that probably some people in reading this report might assume that an inexperienced junior officer and lawyer by the name of Col. Orde, who had no commercial experience, was responsible for the whole thing. I do not think that is right.

Mr. GREEN: That is a matter of argument. I do not think it is a matter of evidence.

Mr. FACTOR: Are we having argument in this committee?

Mr. BERCOVITCH: Are we going to have the report?

Mr. McGEER: Can we go on with the machinery?

Mr. BROWN: I thought he was going to give his report.

Mr. BERCOVITCH: That is it.

Mr. FACTOR: That is what we are waiting for.

Mr. McPHEE: Let us have the report.

The WITNESS: May I now proceed to go through the procedure adopted in obtaining the machinery?

Mr. McGEER: Yes.

The WITNESS: The first batch of machines to be purchased were those for the tool room of the John Inglis Company. The requirements of a tool room to maintain or to serve as a complement to a production unit producing at the rate of 2,500 guns per annum, single shift, was worked out in England during the summer of 1938 by Messrs. Ainsworth, McLachlan and myself. The actual types of the machines and numbers of each machine were worked out and passed on by the actual production and tool room people in the Royal Small Arms Factory, Enfield. Those types of machines and numbers were then set out in a series of fifty different specifications; that is, one specification was written up for each type of machine, and that specification was written in such a way as to include all. That is, it was written in a general way, so that it would admit any machine of a suitable type for that work. In other words, it was not written around some particular make of machine to the exclusion of all others. It was framed in such a general way that it would admit any one who had a machine of the particular type required to quote on that machine. Those specifications having been prepared—and the specifications were written by the engineers of the John Inglis Company—my responsibility was to check those to insure not only that the machine specified conformed to the advice we had had from Enfield but also that they did not exclude any machine which I knew to be suitable for the particular work to be done.

By Mr. Brown:

Q. What do you mean by any machine?—A. Well, for instance, you might take a 28-inch universal milling machine. I can write a specification which will eliminate every 28-inch universal milling machine except one. Then a machine can be ruled out simply on specifications until you get the exact machine that you have specified. There are such little things as the difference in the motions of the machine. No two machines are identical. One will have probably an 8-inch cross motion while another will have a 10-inch cross motion. If we specify an 8-inch cross motion, we can then eliminate 10-inch cross motion machines from the specifications. So it was my job to see that those specifications did not exclude any particular make of machine which was suitable for the work to be done. Those specifications were then released to our purchasing

branch, the director of contracts, and he advertised in the public press throughout Canada and in the United Kingdom that tool room machinery was required for Canadian service and that specifications could be obtained from various centres. Copies of specifications were distributed throughout Canada—I think in Halifax, Ottawa, Vancouver and Victoria.

Q. Who would have charge of that?—A. I beg your pardon?

Q. Who would have charge of that?—A. At the individual centres?

Q. Yes.—A. The specifications or the purchasing procedure is handled by the director of contracts branch of our department, and he will pass out copies of the specifications to the various centres. I expect our ordnance people handle them in the various districts.

Q. How would the tenders be called in? Would they be advertised in the daily press?—A. The tenders were advertised in the press throughout Canada, the daily press of Canada; and any one who wished to know what type of machines we were trying to buy or wanted the specifications could get them by applying to either Halifax, Ottawa or Vancouver. That covered the three points in Canada and saved mailing time, chiefly. The concerns quoting were given six weeks in which to return tenders and those tenders were returnable in accordance with the usual purchasing practice of sealed tenders being due on such and such a date; they were received in the department and put in a sealed box and were opened on the dates due. I wonder if I have made that clear? That is the procedure which was adopted in getting tenders. So that you will see that anyone in Canada or the United Kingdom who reads the daily press had access to these specifications and was at liberty to quote. When the quotations were received, they were properly scheduled by the director of contracts and passed to me for recommendations. You can imagine, obtaining quotations from anyone who wished to quote in Canada or the United Kingdom, that we got a tremendous number of quotations. On some machines, on some individual items, we would get as many as 29 or 30 quotations on one machine. When I received those quotations—I had clerical assistance, naturally—I examined them all and listed them in ascending order of price. First of all, I put all prices on a uniform basis, so that each price which I would list would include exactly the same stores and equipment and was in accordance with the specifications. We might specify arbours for milling machines or vises and that sort of thing; but we would make our prices absolutely uniform to include the same equipment. We would then obtain a list of the machines in ascending order of price on exactly the same basis, and we would have the lowest priced machine on top, the second lowest priced, listed second, and so on down the list. Then we would have our deliveries, promised deliveries, entered against each machine. Then it was my job to go down that list and examine each proposal all the way through there and the principle on which I worked was to go down the list until I came to a machine which was suitable, which met specifications which were suitable for the work, and then I took it further to insure that some other machine possibly would have some added feature that would justify the price differential or something like that. The result was that I personally examined every tender that came in from the engineering point of view, examining it not only with reference to our specifications, but also with reference to the general tool room work which had to be done for that job.

Then we would, having made the tentative selection and having all prices, deliveries and everything of that kind settled—I then called in the engineers of the Inglis company who came to Ottawa. These tenders never left the Department of National Defence. They came to Ottawa and sat with me around these tentative selections, the object being not to buy anything for the company which they could not use—their own engineers, trained engineers with a great deal of knowledge in this type of work—and we simply had a

[Capt. M. P. Jolley.]

conference on these matters, and in a majority of cases my selections were concurred in by the Inglis company. In some cases, I think perhaps in 85 or 90 per cent of the cases they agreed on the selection immediately. There was no argument about it and that was very gratifying. I mean, we were thinking in the same terms and we knew what was needed for this type of work. On the other cases I might have made a selection in which they did not agree, in a few cases, and they would point out some feature which I had overlooked, or some way in which the machine would not function to do their work, and we would settle it, and if we could not settle it ourselves we could call in officers of the department for their opinions on it and the result was that we established a list of machines, the lowest priced machines which would do the work on a basis which was satisfactory to the technical officers of the department, to the purchasing people of our department, and to the engineers of the Inglis company.

Now, in making these selections, price—the principle on which—the policy which I followed, or which I had to follow, was that Canadian machines—that factors of design, quality and capacity to do the work being equal preference was to be given to Canadian machines, then to machines made in the United Kingdom and lastly to foreign made machines. That is the principle which I attempted to follow, and which I think I succeeded very well in following. That covers the tool room machinery.

By Mr. Brown:

Q. Did you have many tenders from Canadian sources?—A. On the tool room machinery we had very few tenders from Canadian sources. Tool room machinery in general is not made in this country. We bought some equipment in Canada, but anyone who wishes to investigate this question further has only to go to the Department of National Revenue to find how many types of machines are listed as of a class or kind made in Canada. There are not very many.

Q. Of course, the matter of selection is very selective within the Department of National Revenue?—A. You will find that there is no precision tool room lathe made in Canada, and you will find that you can import a precision tool room lathe under a class or kind not made in Canada. There are lathes made in Canada. There are general purpose lathes made in Canada, but for precision tool room lathes you can't get one in Canada, they have no proper production shops. Lathes are made in Canada but not for that type of work. You go to Ford or General Motors and ask them where they get their precision tool room lathes? They are simply not made in this country. There is not a demand for them and they are not able to put the class of equipment and type of work into a lathe in this country to produce a precision tool room lathe. We have Canadian made lathes in the John Inglis Co. Limited in the tool room for a certain class of work.

Q. I noticed that?—A. There were a certain number of cases where Canadian equipment would be offered at a greatly increased price over and above what we could buy for in England, and I think I have a case of a shaving machine which would be perfectly satisfactory and could be bought in England for \$1,500 where the price of the Canadian made machine for the same purpose was \$2,500, and you could not justify an expenditure of \$1,000 just to purchase a Canadian made machine in a case like that.

Q. Then, did the department act on your representations, or, after you meet the Inglis company engineers and agreed to the purchase of these machines, what happens then, is that sufficient?—A. That was the agreement between myself and the engineers of the John Inglis company, that we would confer with respect to the technical aspects of this case, and I am pleased to say that the department accepted the technical advice on the purchase of these machines.

It would have been disastrous if non-technical personnel had interfered with the duties of these men. It might have resulted in our having been provided with machines which simply could not have done the work.

Q. You do not know whether these machines ever were purchased from the manufacturers direct, or were they purchased from jobbers throughout the country?—A. These were purchased through jobbers, Mr. Brown. Actually it is impossible to deal with manufacturers directly. There are a few cases where purchase was made from manufacturers, but in the majority of cases they are made through jobbers.

Q. Why is it impossible to deal directly with the manufacturers?—A. We can deal with the dominion manufacturers, but we cannot deal with English manufacturers or manufacturers of other countries. They have their agents and we have been notified that they would protect their agents. That is an agreement between the jobbers and their principals.

Now, with regard to the production machinery the same general principle again is followed, but in dealing with production machinery we are dealing with the real components of a production unit. In other words, to get a balanced plant one needs so many 18-inch milling machines, so many 24-inch vertical milling machines and so many spline milling machines. For instance, there are so many hours of spline milling to be done on the Bren gun, there are so many hours of 18-inch horizontal milling to be done, and the way we have to work out the actual requirements by way of division of machines and numbers of machines is to determine the number of machine hours for each particular type of machine. Now, that was the first function which had to be fulfilled, and there we had the Enfield operation sheets which we follow, which are our authority for carrying out operations, and the method and title of machine by which our operation was to be performed was to be determined on time, the estimated time required for the performance of each operation, and so on; and the result was that the Inglis company compiled a set of specifications, I think there were something over 60 specifications for production machinery, and those specifications covered the type of machine, the number of machines of each particular type, in order to arrive at a balanced unit which would keep each machine occupied as nearly as possible the full operating time when the plant gets into production. And these specifications come to me and I check them against my Enfield operation sheets—I have a copy in my own office—and either pass or reject the specifications depending on whether they conform to our understanding that specifications were not to be written to include just any machine which could do the work; with the result that in some cases I rejected the specification and sent it back for change or correction, or in other cases we might go into it and find a change of numbers of machines, and eventually as between the John Inglis company and the ordnance branch we arrived at a satisfactory set of specifications. These specifications were advertised. Tenders were called for machines in accordance with these specifications by advertising in the public press in Canada and the United Kingdom. That was on the tool room machinery, the same procedure was followed in selecting the individual types of machine. And, if it is of any interest to this committee I have a group of six typical specifications and the actual schedules and recommendations which were made in the ordnance branch, and all selections in which the engineers of the John Inglis company concurred, and I would like very much to pass these to the committee if it is in order.

The CHAIRMAN: Yes.

The WITNESS: Before I do that there is one point which I would like to bring out and that is that delivery of course was important on this work and in many cases the low-priced machine would have to be nullified because it was quoted on a delivery which simply made it impractical to purchase.

[Capt. M. P. Jolley.]

We could not countenance a year's delay or even six months delay on some types of machines. We had to buy machines on a delivery which was satisfactory to our production program. I would like to say that I heard Mr. Gillespie's evidence and I might say the capacity in which Mr. Gillespie acted on any of this was to come to Ottawa with the engineers of the John Inglis company and to pass on or to add his comments to the selections which we had made in the ordnance branch prior to the Inglis company coming to Ottawa.

The CHAIRMAN: Gentlemen, in connection with these exhibits which Captain Jolley has just had passed around, I presume you do not want them included in the record in any way, do you?

Mr. BERCOVITCH: We don't know what they are.

The CHAIRMAN: They are competitive bids on different machines.

Mr. BERCOVITCH: I do not think it is necessary to have these on the record.

The WITNESS: These are tenders, and they are confidential. It would not be fair to have them on the record, I suggest.

Mr. BERCOVITCH: I suggested that they might be filed as evidence, as an exhibit.

By Mr. Green:

Q. How many production machines are there to be?—A. I am sorry, Mr. Green, I haven't got the exact figure; it is something like 350, I think. About that.

Q. What proportion of these have been purchased already?—A. About 85 per cent are now on order.

Q. What proportion have been installed?—A. The production machinery is beginning to come in now. I would say not more than 10 per cent of the production machinery has been installed up to date. It is coming in every day now and there is a schedule of deliveries which started in March and is going forward, and a big bulk of the machinery is due in for this month, May and June, and it will be coming in all the time.

Q. When do you expect to have all the machinery installed?—A. With the exception of a few odds and ends it should all be installed in June.

By Mr. Brown:

Q. Do you spend a good deal of your time at the Inglis plant now?—A. Yes, I go back and forth between Ottawa and Toronto probably once every two weeks. We are in constant discussion on all points, and I am completely in the picture with regard to everything that is going on with regard to the engineering point of view.

By Mr. Green:

Q. What is to be the total cost of the machinery, do you know that?—A. The total cost with all taxes, duty, etc. of the machines purchased amounts to about \$825,000. There will be approximately \$150,000 more to purchase. Our machinery purchases are going to come out very close to the original estimate which the John Inglis company entered in accordance with their plan (A) and they should be within 3 or 4 or 5 per cent of the original estimate.

Q. Do you know what was the estimated cost of this machinery?—A. I have it here, Mr. Green; the estimated cost of the machinery amounted to about \$926,000.

By Mr. Bercovitch:

Q. Is that the purchases to date?—A. No, that is the estimated cost for the new machinery.

By Mr. Green:

Q. Mr. Elliott gave us a figure of capital invested in machinery of \$1,108,000?—A. Yes, that is the figure that includes installation, re-conditioning of the Ross rifle equipment, and also the electrical equipment in connecting the machines up to the outside power supply.

Q. How is the cost going to compare with that of the estimate, do you know?—A. It is coming out very close. Some individual items are slightly above, others are slightly below. But from the best information which I could get from the cost people we are going to come out very close to that \$1,108,000 on the total instalment of the plant.

Q. That is the cost of the new machinery?—A. That is right.

Q. What about tools, dies and jigs, the estimate on that was \$427,000 odd?—A. That is right, that is a very difficult thing to comment on at the present time, because the gauges, tools, jigs and fixtures, some are being bought from the trade, some are being manufactured in the tool room of the John Inglis company now, and one can only forecast from what has been spent up to the present time; that is, forecast from the number of items that have been bought to date, the prices paid for those items and the total number of items required, and the probable price can be worked out.

Q. You are not yet in a position to say what the actual cost would be?—A. I could not give you any reliable statement on that. I think it is reasonably close.

Mr. McGEER: I think, Mr. Chairman, that that statement of Captain Jolley's should go on the record in full?

The CHAIRMAN: You are not referring to this statement, this schedule of tenders?

Mr. McGEER: I am referring to this one here (indicating). It is marked schedule No. 3.

The CHAIRMAN: Captain Jolley advises against that.

The WITNESS: I might say that these are contract prices and they are confidential and I do not think it is fair to the manufacturer to disclose these prices.

Mr. MACNEIL: You will notice in the schedule he comments on the reliability of certain types of equipment, and that might react to the disadvantage of certain manufacturers.

Mr. GOLDING: It had better be left off the record.

Mr. MACNEIL: I think it should be treated as confidential. It might be filed with the committee as an exhibit.

Mr. FACTOR: I would suggest that it be filed as an exhibit.

Mr. McGEER: Is it going to be printed as an exhibit?

Mr. MACNEIL: No, it would be filed with the clerk and anyone who wants to refer to it for purposes of argument could obtain the use of it through the clerk.

The CHAIRMAN: These should all be returned to the clerk.

Mr. MACNEIL: Could you give us a general idea of the procedure followed by the purchasing department?

The WITNESS: Each of the documents is divided into two sections. Actually the last section should come first; that is, the specifications which were prepared and issued, and the first document is a schedule of tenders which were received as a result of advertising these specifications. And I might say that whenever a special machine had to be built we insisted and went to the trouble of showing sufficient data so that any Canadian manufacturer could design the machine here and have it built in Canada, and practically in all cases of specially designed and built machines these are being built in Canada.

[Capt. M. P. Jolley.]

The CHAIRMAN: This document will go into the record as Exhibit No. 14.

Mr. GREEN: Do you want them all back?

The CHAIRMAN: Yes.

The WITNESS: These are what I consider to be—I picked them more or less at random out of groups—but they are typical of various types of machinery that was bought. For instance, specification T-98 is typical of a special machine which had to be designed and built specially.

By Mr. McGeer:

Q. Now I take it from this statement that you have given to us to-day that in preparing for the installation of machinery in the John Inglis plant for Bren gun production that the specifications for machinery required were provided by Enfield, did you tell us that?—A. They were prepared by the John Inglis company engineers in draft form and submitted to me and I passed or rejected them, or we came to an agreement on the specification.

Q. What did you tell us that Enfield had to do with it?—A. Enfield came in only on the tool room machinery. Installation of the tool room is something which cannot be measured. It is not a matter of putting in a machine to do a particular operation as in a production line, so we must there depend on expert advice to see what types of machines we should have and how many of each type we should get, and it was in getting together the basic data to install that tool room that we depended on the advice of the Enfield engineers.

Q. Then tenders were called for all the machinery installed through the Department of National Defence?—A. That is right.

Q. And they were advertised clear across Canada so that the manufacturers in Canada were advised of these possible purchases?—A. That is right.

Q. Tenders were received and checked by the Department of National Defence?—A. Yes, sir.

Q. All contracts for the purchase of machinery were let by the John Inglis Company under the supervision and with the sanction of the department officers?—A. No, that is not correct. The contracts were let by the Department of National Defence. The John Inglis Company had nothing to do with the purchase of machinery more than to meet on the selections which we made and pass on them from a technical point of view.

Q. So that it was the department that had the final say in the letting of the contract?—A. Yes. Naturally, if the engineers of the John Inglis Company objected to a machine from the technical point of view—and I was in a position to know whether it was sound or not—we would not buy and put in their plant a machine which they could not operate.

Q. But if the John Inglis Company made an objection which you did not think was sound, it was your right to decide against their advice?—A. Exactly.

Q. And the department, in letting the contract, had the assistance of its own technical officers?—A. That is right.

Q. Its own purchasing department?—A. Yes.

Q. And the staff of the Inglis company?—A. The engineering staff only.

Q. The engineering staff of the John Inglis Company?—A. Yes.

Q. Were any machines purchased outside of Canada that could be secured in Canada?—A. Yes. There were cases where the price differential was such that it would have cost us a great deal more money to purchase the machine in Canada.

Q. Was there any other reason for the purchase outside of Canada?—A. Technical reasons, yes.

Q. What were those technical reasons?—A. Well, I quote the case of precision tool room lathes.

Q. Yes?—A. Lathes are made in Canada and might be offered against our specifications; but it would be disastrous to install a bank of precision tool room lathes from Canadian production. We simply could not do the work.

Q. That gets back to the point that the tool you wanted was not produced in Canada?—A. Yes.

Q. So that outside of the price there was no other thing, where a tool capable of doing the work could be purchased in Canada. Was there any other reason for not buying it in Canada?—A. No, not at all.

Q. Were there any tools purchased outside of the United Kingdom that could have been secured in the United Kingdom?—A. Yes. There were two machines purchased out of the United Kingdom which could have been purchased in the United Kingdom; and the only reason for doing that was delivery, particularly on the tool room machinery.

By Mr. Green:

Q. Did that apply to purchases outside of Canada also—that in some cases you bought outside of Canada because delivery in Canada would take too long?—A. I do not think we rejected any Canadian proposals on delivery. I do not think there is any reason to do that, Mr. Green. As I recall the situation, there were no rejections of Canadian-made machines on delivery.

By Mr. McGeer:

Q. And only in two instances in the United Kingdom? Is that what you said?—A. I beg your pardon?

Q. And only in two instances in the United Kingdom was delivery a factor?—A. There were more than two instances; there were several instances, particularly of tool room machinery.

By Mr. MacNeil:

Q. Outside of Canada and the United Kingdom, from what other countries were machines purchased?—A. Practically all from the United States except a few special machines which we had to go to Switzerland for; and I think we had to get one machine in Germany. It is the only machine of its kind made in the world, to the best of my knowledge. It is a special grinding machine.

By Mr. McGeer:

Q. What do you use it for?—A. It is used for grinding, form cutting and profiling; forming milling cutters and profiling gauges. It is used for grinding irregular shapes.

Q. Did the Germans know you were going to use it for the manufacture of Bren guns?—A. No. They did not seem to be interested in that.

Mr. BERCOVITCH: They want to get foreign exchange. That is all they are interested in.

Mr. MACNEIL: It is six o'clock.

The CHAIRMAN: What is your pleasure, gentlemen?

Mr. McGEER: Is there anything further?

The CHAIRMAN: Are we finished with Capt. Jolley?

Mr. McGEER: There are a lot of questions I will think of to-night after I have gone to bed.

The CHAIRMAN: We have defence estimates to-morrow.

[Capt. M. P. Jolley]

Mr. McGEER: There is one question I wish to ask. I knew there was something that was floating around. We might just as well finish it now. It is on the question of rejections.

Mr. MacNEIL: That is going to take some time.

Mr. McGEER: Do you want to go into it?

Mr. MacNEIL: If you are going to go into it.

The CHAIRMAN: Are you finished with Capt. Jolley?

Mr. McGEER: No; we want to go into rejections.

The CHAIRMAN: Shall we adjourn until to-morrow morning?

Mr. GREEN: We have defence estimates to-morrow.

The CHAIRMAN: Then we shall have to adjourn until next Tuesday. Suppose we adjourn to the call of the chair, figuring on meeting again on Tuesday.

The committee adjourned at 6 p.m., to meet at the call of the chair.

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Canada - Public Accounts, Standing Committee, 1939

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SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

RESPECTING

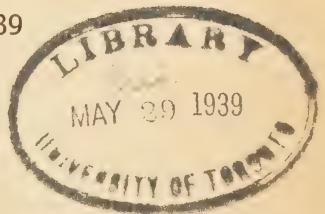
THE BREN MACHINE GUN AND OTHER ARMAMENT CONTRACTS

No. 20

MONDAY, MAY 22, 1939

WITNESS:

Hon. I. A. Mackenzie, K.C., Minister of National Defence



OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

MONDAY, May 22, 1939.

The Standing Committee on Public Accounts met at 11.15 o'clock a.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Bercovitch, Bothwell, Brooks, Douglas (*Weyburn*), Factor, Fleming, Fraser, Golding, Green, Homuth, Isnor, MacNeil, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Patterson, Purdy, Thauvette, Turgeon.

In attendance: Hon. I. A. Mackenzie, K.C., Minister of National Defence.

Mr. Mackenzie read a prepared statement setting forth the history of the negotiations leading up to the execution of the agreement between the Government and the John Inglis Co. Limited, and was questioned thereon.

At 12.50 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Anderson, Barry, Bercovitch, Bothwell, Brooks, Douglas (*Weyburn*), Factor, Fleming, Golding, Green, Homuth, Isnor, MacInnis, MacNeil, McCann, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McPhee, Patterson, Purdy, Stewart, Stirling, Turgeon,

In attendance: Hon. I. A. Mackenzie.

Examination of Mr. Mackenzie was continued.

At 6 o'clock p.m., on motion of Mr. Bercovitch, the Committee adjourned until 8.30 o'clock p.m., this day.

EVENING SITTING

The Committee resumed at 8.30 o'clock p.m., the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Ahearn, Bercovitch, Black (*Chateauguay-Huntingdon*), Factor, Fraser, Golding, Grant, Green, Heon, Homuth, Isnor, MacInnis, MacNeil, McDonald (*Pontiac*), McGeer, McKinnon (*Kenora-Rainy River*), McLean (*Melfort*), McPhee, Patterson, Purdy, Turgeon.

In attendance: Hon. I. A. Mackenzie.

Examination of Mr. Mackenzie was continued.

At 10.50 o'clock p.m. the Committee adjourned until Tuesday, May 23, at 11.15 o'clock a.m.

A. L. BURGESS,

Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 368,

May 22, 1939.

The Standing Committee on Public Accounts met at 11.25 a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: We have a quorum, gentlemen. If it is the wish of the committee to proceed with the minister, the minister is ready, unless you have any other matters you wish to bring before the committee.

Hon. IAN A. MACKENZIE, Minister of National Defence, called.

Hon. Mr. MACKENZIE: Mr. Chairman, and members of the committee. In the first place, I want to thank you, Mr. Chairman, and the members of the committee, for affording me the opportunity this morning of coming before you. I know that several members of the committee cancelled very important appointments to be here, and I wish to express my personal appreciation to them for so doing.

I will read a statement and then submit myself to the tender mercies of your committee, Mr. Chairman.

When the issue of the Bren gun contract was first raised in an article published on September 1, 1938, the government, of which I have the honour to be a member, deemed it fit and proper to authorize a public inquiry. The Hon. Mr. Justice Davis of the Supreme Court of Canada conducted this inquiry and his report has been before the House of Commons and before this committee throughout the present session.

The report finds *inter alia*, on page 51:

"There is no evidence that any member of the Senate or of the House of Commons of Canada was admitted to any share or part of the contract; or to any benefits to arise therefrom, or had been promised or given any suggestion that he was to have any share or part of the contract, or was to be admitted to any share or part of the contract, or to any benefit to arise from the contract.

There is no evidence that any senator or member had any connection with or took any part in the affairs of the company or in the sale of shares or securities of the company. I think it right to say that there is no evidence (nor is there in the evidence any ground for suspicion) that the minister or the deputy minister or any officer or official of the Department of National Defence was guilty of any act of corruption or anything in the nature of corruption."

If the report, Mr. Chairman, had ended with these conclusions, it seems to me there would have been no demand and no reason to refer this contract to your committee, because the finding, in my judgment, is a complete exoneration of all parties responsible for or having anything to do with the negotiation and consummation of the contract.

At page 49, this conclusion is substantially supported by the most specific findings which the commissioner makes with regard to the contract itself. I quote from page 49 of the report:

"The contract is not for a fixed sum; it is on a cost-plus basis. It is admitted that we do not know how much the guns are going to cost.

There are, of course, adequate powers of inspection, supervision and control vested in the department under the contract and with the estimates from Enfield of what the guns there are costing it should be possible to keep actual costs here well within bounds. No substantial objection can be taken in my view to the provisions of the Canadian contract, though in the absence of any competitive bids or terms of manufacture I am unable to pass upon the substance as distinct from the form of the contract. It is important, of course, that the contract be a good and business-like contract; but what is more important after all is whether the procedure adopted in making the contract was that best calculated to protect the public interest and to secure the confidence of the people of Canada that there would be no improper profiteering in the private manufacture of war armaments for the defence of the country."

Then the commissioner adds:

"That is a question upon which the government and parliament, in the light of the evidence brought before the commission, must pass."

Then, dealing with the question of whether tenders should have been called for, the commissioner found on pages 49 and 50, as follows:

"On the question whether tenders should have been called for, government counsel argued that there was ample evidence on which it could be found that a specialty of this kind (i.e. the Bren gun), a new art in Canada, is not a subject for the calling of tenders from manufacturers; that it has to be dealt with on a cost-plus basis, at least in the initial stages.

Your commissioner took the position that it is at least a plausible view and that the question whether tenders should be called for in such a case is a matter of administrative policy, upon which competent opinion is, or may well be, divided, and one therefore peculiarly for the government and parliament."

In the light of these observations of the Honourable Mr. Justice Davis, which in no way qualify or change his general findings, but are merely supplementary to it, it seems to me that the pertinent issues before your committee may be enunciated as follows:

1. Was the present contract of the kind upon which public tenders could be secured to the advantage of the public interest, and was it of a character that called for the selection by the department of a contractor to be engaged on terms such that his operations, costs, and profits would be under the direct control of representatives of the government.
2. Whether the procedure followed in arriving at the contract was calculated to protect the public interest and secure the public's confidence that there would not be improper profiteering.
3. Whether the system in connection with the interdepartmental committee broke down by the committee failing to report back to the body that created it.
4. The substance of the contract.

In dealing with this first issue, whether tenders were practicable, I would like to place before your committee some of the problems confronting the department in procuring equipment and developing the various means of defence called for by the recommendations of the government's naval, military and air advisers.

[Hon. I. A. Mackenzie, K.C.]

In the first place the department is limited in its operations by the amounts of money annually voted by parliament for defence purposes; and parliament itself is in no small measure controlled or influenced in this regard by the amounts that public opinion will support.

For various reasons public opinion had not been sympathetic to large expenditures on defence. During the five-year period ending 1936-37, our average expenditures on Canadian defence had been limited to approximately 15 million dollars a year. Consequently, the crisis that became apparent in 1936 brought with it a sweeping demand for a widespread improvement in the whole defensive system of the nation.

However, the increased appropriation of 1936 (approximately 23 million dollars) (not counting the amount spent on relief camps), and the appropriations of 1937 (approximately 35 million dollars) were far from sufficient to permit the department to launch any general program of nationalization of the production of any wide range of our requirements of arms, munitions and other equipment.

The amount available for the purchase of Bren guns in 1936 was \$2,000, which was simply for the purpose of buying two specimen guns for experimental and training purposes. In that year the department had no authority to enter into a contract for the purchase or production of a supply of such weapons.

Here, Mr. Chairman, may I digress for a moment to explain why we were not in a position to undertake the production of Bren guns at that time in government-owned arsenals.

The problem came to my attention, first of all, in June, 1936. I had a memorandum handed to me in July from the master-general of the ordnance. I think it is in evidence before you. We were dealing then with the broad question of providing the department with many items of equipment held to be essential for defence by the staffs of the several services.

There were in the department certain officers (and you have evidence of this) who advocated very strongly the setting up of government plants for the production of our various requirements. There were others who contended that the elements of cost and time involved in the development of additional government plants made such a policy inadvisable.

As I informed Mr. Justice Davis during the sittings of the royal commission I called a meeting of the Defence Council, at which exponents of the two schools of thought expressed their differing and different views. I made fairly comprehensive notes in my own handwriting at that time of the main arguments advanced by the two schools of thought, and I took the issue to cabinet council as a matter to be decided by the government.

The decision was that, having in mind the sums likely to be available for the acquisition of defence equipment, it would be unwise and impracticable to utilize these funds upon erecting and equipping factories, a program that would take probably two years, in comparison with a policy of entering into arrangements with established private industry and expending the funds appropriated to my department upon the direct acquisition of the articles themselves.

By Mr. Green:

Q. Could the minister tell us what date that cabinet meeting took place?

Mr. FACTOR: You mean the meeting of defence council?

The WITNESS: I think that is in evidence. I have not the date in my mind at the moment, but it is in the evidence taken before the royal commission. All the minutes of defence council were tabled as evidence before the royal commission.

By Mr. Green:

Q. No, you said it went before cabinet and they decided it.—A. Oh, yes, that is quite correct, after we discussed the matter in defence council, the general issue, and that is also in evidence before the Davis commission.

Q. Can you say what year that was?—A. In 1936. I will be glad to get the exact date for you. That is in evidence before the Davis commission.

Mr. GREEN: There is some misunderstanding at this end of the table. I understood you to say that this situation was placed before the cabinet as well as the defence council and a decision reached; some of the members here think that the case was only referred to the defence council.

The WITNESS: That is correct, Mr. Green. You will find in the evidence before the Davis commission—I haven't the exhibit number at the moment—after the discussion in defence council (this is in evidence before the Davis commission) I wrote a letter personally to the Prime Minister setting out the exact situation with reference to policy; and that is also a document in evidence before the Davis commission.

Mr. BOTHWELL: I think if the witness were to read that last sentence again it would clear the matter up.

The WITNESS: As I informed Mr. Justice Davis during the sittings of the royal commission, I called a meeting of the defence council, at which exponents of the two schools of thought expressed their differing and different views. I made fairly comprehensive notes of the main arguments advanced by the two schools of thought, and I took the issue to cabinet council as a matter to be decided by the government.

By Mr. Green:

Q. Could we get that?—A. That is also in evidence.

Q. We haven't got it, have we?—A. Yes.

Mr. BERCOVITCH: We can get it later on. Let him continue his statement.

The WITNESS: That is an exhibit actually filed before the royal commission.

I made fairly comprehensive notes of the main argument advanced by the two schools of thought, and I took the issue to cabinet council as a matter to be decided by the government.

The decision was that, having in mind the sums likely to be available for the acquisition for defence equipment, it would be unwise and impracticable to utilize these funds upon erecting and equipping factories, a program which would take probably two years, in comparison with a policy of entering into arrangements with established private industry and expending the funds appropriated to our department upon the direct acquisition of the articles themselves.

By Mr. Green:

Q. That is the decision of the cabinet?—A. That is my interpretation of the decision of the cabinet.

Q. I would like to get the date of that also?—A. I am not sure if I can give you the exact date of that meeting of cabinet. I will give you the date of my letter to the Prime Minister just prior to my discussions in council. I think that is as close as I can get to the date of it.

Q. In any event, it was within a few days?—A. Yes, that would be very close to it.

The WITNESS: In principle I strongly incline to the idea of public ownership of the production of arms and munitions, and in time I hope that such a policy, as far as it may be practicable, may be developed in this country. In

[Hon. I. A. Mackenzie, K.C.]

my statement to the royal commission, as reported in the evidence, I explained the situation fully.

The Hon. Mr. Justice Davis correctly reports me at page 11 of his report as pointing out to him:

. . . very definitely that the plan of government ownership as such has never been definitely abandoned; it has just been postponed because of the financial stringency which was particularly embarrassing to the Minister of National Defence.

It would have been impossible for our department to undertake the establishment and erection of a government plant for the supervision of Bren guns in 1936 for two principal reasons: (a) the department knew too little about the problems of acquiring the guns either by purchase outside of Canada or manufacture in Canada, and (b) no funds were available. In view of other pressing necessities in subsequent years the situation in regards funds has continued more or less the same until the present. The difficulty was met when the government of the United Kingdom placed an order which permitted us to purchase in Canada at reasonable cost.

So that the committee may understand clearly what I mean, it must be borne in mind that in the whole program of defence the production of Bren guns is only one detail. Any program of national ownership of the production of defence equipment must provide the plant and equipment necessary to produce rifles, revolvers, machine guns, air craft, naval craft, artillery weapons, ammunition of all kinds, and so on.

The minutes of the defence council meeting at which this broad subject was discussed were in evidence before the royal commission as Exhibit No. 277. We were discussing that a moment ago. The various estimates as to the capital outlay required vary from around \$30,000,000 for Valcartier alone to a much larger sum if we were to put the Dominion in the business of supplying all its defence requirements from publicly owned plants.

In addition there is to-day a great deal of information available which indicates that many factors have to be considered as between the several alternative policies for arms production.

These alternatives may be described as

- (a) Production in publicly owned plants;
- (b) Production in private industry under the system of competitive public tenders;
- (c) Production in plants where the government enters into an agreement to provide capital, wholly or in part, with private operation under government control both as to operations costs and quantity of profit.

I think My friend Mr. MacNeil quoted from Mr. Elliott in the house in regard to that. Mr. Elliott has just written a work entitled "The Ramparts We Watch." He is a military expert in the United States. I would like to quote from what he says in his book:—

In this work the War Department, with the assistance of the Navy Department, has accomplished a remarkable achievement; and in so doing, has had the hearty co-operation of industrial management. The last Congress made a great advance when it permitted certain funds to be used by the War and Navy Departments in giving what are called "educational orders" to selected plants to enable the latter to acquire experience in the production of certain critical items of munitionment; formerly this was not possible, as every government contract had to be let, on the basis of advertised bids, to the lowest bidder, which was naturally a firm already equipped for turning out the desired product. All this part of the Industrial Mobilization Plan is necessary and will make a great contribution to our effectiveness in war.

The letter to which you referred, Mr. Green, if I might interrupt myself, was dated October 29, 1936. Would you like me to read it?

Mr. GREEN: Yes.

The WITNESS:

My Dear Prime Minister,—

May I suggest that at your earliest convenience we have a short meeting of the defence committee. One of the questions I should like a decision on is in regard to the following:—

What should our policy be with reference to the supply of munitions or small arms. The Chief of the General Staff believes that Canada should be self sustaining, and that we should proceed with the work at Valcartier.

The completion of the ammunition building there will entail an additional Five and one-half Million Dollars. Some members—

Mr. GREEN: I take it that that means, members of the defence council?

The WITNESS: Yes, members of the defence council.

Some members take the view that this money could be better spent in co-operating with private firms. The Chief of the General Staff believes that our policy should be to have a government factory both in regard to munitions and also in regard to small arms, but to co-operate with industry as far as possible.

It will take from two and one-half to three years to complete the ammunition building at Valcartier. In the meantime, of course, the government could give orders to private firms on the definite understanding that in case of any emergency arising, these firms would be taken over and controlled by the government during the time of emergency.

Yours very truly,

By Mr. Green:

Q. Then, there was a cabinet meeting which followed that?—A. The cabinet meeting followed that. There is no record of any reference to that. It is probable, very likely, that it came before cabinet within the next few days after that letter was written.

I gave you three alternatives of possible ways by which these guns might be produced. Under the publicly owned system, the cost to the government, notwithstanding the elimination of private profits, is often much greater than where private production is accepted. The efficiency of publicly owned and operated arsenals has not always shown up as well as that obtained by private enterprise. And I still regret to state that we have found the cost of producing in our Dominion arsenals to be very substantially greater than what we found in another contract before this committee, I refer to the contract given to the Montreal construction company, their cost being very much lower per unit than ours.

Q. That is, the price per shell?—A. Yes.

On the other hand, experience during the great war clearly indicated that government arsenals alone are not adequate to meet the emergencies of actual conflict.

For these reasons the British and American governments, with a much wider experience than ours, have inaugurated a system of government co-operation with private enterprise designed to establish preparatory defence industrial operations on the basis that private enterprise would become more efficiently equipped to co-operate with the government to meet any emergency that may arise.

It was as a result of our knowledge of the policies adopted by Great Britain and the United States that we had no hesitation about following a similar plan in Canada, as the best suited to our situation in this country unless and until parliament and public opinion are willing to advance the much greater sums for national defence that the construction and equipment of government owned plants would involve.

While there has been a great deal of discussion regarding profits, it is a fact that in many instances, the item of profits is comparatively small from the standpoint of total costs.

And while it is of the utmost importance to keep profits within the minimum limits of what is fair and reasonable, it is even more important that the actual cost of the article purchased shall be under the supervision and control of responsible representatives of the treasury and the Department of National Defence.

I point these facts out because the contract which you have under review is specially designed not only to regulate and control profits, but to guarantee a minimum of actual cost in the production of the equipment contracted for.

No matter what may be said as to the wisdom or virtue of complete elimination of profits by public ownership and operation, I think that authoritative opinion will overwhelmingly agree that the system of government co-operation with private industry, where government has control of costs, operation and profits, was in the special circumstances of this transaction the only practicable course open to the government.

In addition to these general reasons there were other more specific reasons why it was not possible to set up a publicly owned plant or call for public tenders for the manufacture of 7,000 Bren guns required to equip the Canadian service.

Shortly after the Department of National Defence was informed early in 1936 of the approval and adoption of the Bren gun by the war office for the British army steps were taken by the department to obtain two specimen guns for examination and instructional purposes.

At that time the government could not ascertain either the price at which guns were available in quantities, or obtain any assurances about time of delivery. For example, the first two guns cost us \$1,584.64 each, and none were available except from Czecho-Slovakia. Whether or not it might have been possible to place an order in that country was never considered and it would certainly now appear fortunate that no such course was followed.

Possibility of securing guns from Great Britain was largely dependent upon their own requirements for immediate use and the effect that an emergency might have on their ability to spare any of their production for Canada's use.

By Mr. Brooks:

Q. Does your department have to pay customs duty on these guns?—A. I would think so, yes.

Q. It is about 40 per cent, is it not?—A. Yes, it is a very heavy customs duty.

By Mr. Green:

Q. That would be included?—A. I haven't got the details as to figures but that could be secured from the Customs department. If you want them they can easily be procured for you.

We were informed on November 4, 1936, by the Canadian High Commissioner that "while definite rates of delivery can not yet be quoted, small numbers for training purposes might be supplied in 1938, with the bulk of the supplies in subsequent years. The estimated cost per gun will be in the neighbourhood of £100," but the High Commissioner stated that no firm price could be quoted. (Exhibit 79).

That is from the High Commissioner in London. The High Commissioner stated that no firm price could be quoted.

The department by this time had established the fact that 7,000 guns would be the number required, but the situation was that no sure source of supply was available nor was the actual cost known, nor had funds been made available.

It was at this stage that Major J. E. Hahn came to the department seeking aircraft or shell orders from us, or an introduction to the old country to assist him in obtaining munition orders over there. While in Ottawa on this errand he learned of the existence of the Bren gun and suggested that he might be able to manufacture it in Canada.

My own direct contact with Major Hahn was very casual. He was introduced to me in my room in the hotel and I gave him a personal letter of introduction but that incident made so little impression on my mind that I completely forgot it until it was brought to my attention long afterwards; during the royal commission proceedings, as a matter of fact.

By Mr. Green:

Q. That was the letter of October 19th?—A. Yes.

Q. Have you a copy of it there?—A. I have not a copy of it before me; it is an exhibit.

Q. Is that the letter referred to on page 17 of the Davis report which reads:

OCTOBER 19, 1936.

Dear Mr. MASSEY:

The bearer of this letter, Major J. E. Hahn, D.S.O., M.C., is in England to investigate the manufacture of all classes of munitions and armaments. I am anxious that he be afforded every facility and access to enable him to ascertain and bring back complete manufacturing data and costs governing manufacture of munitions and armaments.

A. Yes, that is correct.

In view of all the circumstances as I have been able to review them, I feel that the deputy minister was fully justified when a man of Major Hahn's military and industrial standing and experience advanced the view that these guns could be made in Canada, in placing at Major Hahn's disposal every possible co-operation towards bringing about the establishment in Canada of a source of supply for this essential weapon.

The department has been criticized because at that time it gave a certain assistance to Major Hahn and did not call for public tenders.

The fact is that, at that time, the department had no authority to negotiate for the manufacture of Bren guns, nor had it any idea of what would be involved in the way of costs, so that we were not even in a position to go to parliament and ask for such authority. The department, in so far as the Bren gun was concerned, was in a position of studying and exploring a new problem at the time when Major Hahn came forward and offered a possible solution, which would involve his going to the old country to ascertain from a Canadian manufacturing standpoint:

1. The technical problems involved in the production of this weapon;
2. The cost of production; and
3. The number of guns that would have to be produced to warrant from an economic standpoint the establishment of a Canadian plant.

Nobody in the Department of National Defence could answer such questions at that time, nor was it a problem which a technical officer would be as well qualified to answer as would be a practical and experienced manufacturer.

[Hon. I. A. Mackenzie, K.C.]

It was under these circumstances that the responsible officials of the department began their co-operation with Major Hahn.

The department had a whole series of these problems of how and where to procure equipment under review at this time in connection with the preparation of our estimates for the 1937 session, for which it had been decided by the government there must be a substantial increase in our estimates to provide for the strengthening of the country's defences. I can not say that I was aware of all the detailed steps taken in connection with this one matter of the Bren gun, although I know that I was consulted from time to time and gave my approval to various steps that were taken in the light of the facts as they were then known to me.

Mr. FACTOR: Not so fast, Mr. Mackenzie, please.

The WITNESS: All right.

Furthermore, on going back over the records, I am satisfied that the various steps taken by way of assistance to Major Hahn to enable him to obtain information very much needed by the department were proper measures to be adopted in the circumstances.

My own letter of introduction, which was given before Major Hahn had become interested in the Bren gun, was a purely routine matter and only one of a number of similar letters given to Canadian industrialists introduced to me by members of parliament under similar circumstances.

Major Hahn went to England and he apparently found that my letter of introduction was of little value.

It should be fully realized that at this time the department had no authority to let a contract and did not know (nor did Hahn) whether the Inglis plant or any other Canadian plant could make the gun. While it is very doubtful that Major Hahn's whole interest was centred on the Bren gun at the outset, our departmental interest in his errand was solely concerned with his effort to find the answer to that question.

We in the department knew that the owner of the patents had licensed the British government in such a way that these guns could be manufactured in a Canadian government plant, but we also knew we did not have such a plant nor the means of establishing it.

It was, as a matter of fact, just about this time that I reported to Council the divergence of opinion among my staff officers on the merits of a large program of arsenal expansion. The government as a whole decided that the capital outlay involved was out of proportion to our requirements and to the funds that would be available in our next year's estimates.

Whether the patent owners would agree to allow the guns to be manufactured in Canada in a privately owned plant was still unknown and certainly there was nobody in Canada to whom the department could go who had any right a licence to manufacture the guns.

How, under such circumstances, could the department call for tenders at that stage?

These were the circumstances that existed when the department was advised from the old country through the Department of External Affairs that Major Hahn would not be given access to the Enfield plant to get the desired information unless it could be given to him as a representative of the Canadian government.

The department was interested in two features of Hahn's enquiry.

1. What the cost of manufacture would be.
2. Whether or not a Canadian manufacturer could undertake production in Canada—this country never having made machine guns.

In these circumstances I had no hesitation in accepting the advice of my department and did recommend to the government that for the purpose of

getting this information Hahn should act as a representative of the government, and in fact, as a result the Secretary of State for External Affairs on November 10, 1936, cabled to the High Commissioner as follows—

From: The Secretary of State for External Affairs, Canada.

To: The High Commissioner for Canada in Great Britain, London.

OTTAWA, 10th November, 1936.

Your telegram No. 396 November 9th.

Have discussed matter with Minister National Defence. You might request War Office to give Major Hahn as representing Canadian Government in this particular, any information which they consider desirable and necessary to enable National Defence to reach conclusion on possibility of producing Bren gun in Canada. It is not desired to request furnishing of information on any article other than this gun.

Secretary of State for External Affairs.

Code Section, Sent Nov. 10, 1936.

Department of External Affairs.

As a result Major Hahn was permitted to make his investigations. He returned to Canada and made a full and complete report to the department. It was then we learned definitely for the first time from the most authoritative sources that the production of guns in Canada was technically possible, but that the number of guns required to warrant economic production at a reasonable cost would be a minimum of 12,000 which was in excess of Canada's requirements.

The department was also informed by Major Hahn that he believed he had succeeded in interesting the British government in the idea of establishing in Canada a secondary supply base for this weapon, and although it was recognized that the cost of producing them in Canada would be in excess of the production costs in England, due to higher wage rates, that for reasons of security he believed the War Office could be induced to meet the extra expense.

At this stage it became obvious that the hope of obtaining Canadian production of Bren guns depended on whether Major Hahn could induce the British government to give him a contract for the production of 5,000 guns from the British War Office. It was at this time that we learned through the office of the High Commissioner of the British government's position.

Then I refer to Exhibit No. 106-R, which is a letter from Colonel Vanier of the 17th of December, 1936, addressed to the Deputy Minister of National Defence, Ottawa. You have a copy of that in the evidence now.

Mr. GREEN: What is the exhibit number of that?

The WITNESS: No. 106-R.

EXHIBIT No. 106-R

Secret

17th December, 1936.

SIR,—

I have the honour to refer to my cablegram dated the 17th December, in which I forwarded information received from the War Office on the subject of machine gun deliveries and I am enclosing herewith copy of a letter dated the 12th December which was received.

Referring to the last paragraph of the War Office letter I wish to say that I saw Sir Harold Brown, Director-General of Munitions Production, who confirmed the information given in the letter and who added that if a second source of supply was created, delivery might be made shortly

before the autumn of 1938. Sir Harold Brown added that the war department requirements were now covered by the existing arrangements made for manufacture in this country so that it would not be possible to give any assurance that orders would be placed by the War Department for the manufacture of these guns in Canada, should a plant be set up there. This, however, is a matter which could be gone into later, but as it was a question of government policy Sir Harold Brown did not care to express any views on the subject.

I have the honour to be, Sir,

Your obedient servant,

(Sgd.) GEORGE P. VANIER,
Secretary.

PART OF EXHIBIT 106

The War Office, London, S.W.1,
December 12th, 1936.

57/SA/792 (D.A.C/P)

SIR:—I am commanded by the Army Council to acknowledge receipt of your letter of the 3rd December, 1936, on the subject of machine gun deliveries.

I am to state that the situation is that the whole of the capacity of the Royal Small Arms Factory, which is at present the only source of supply apart from Czechoslovakia, will be fully occupied with war department requirements until at any rate 31st March XXXX. If demand of the size envisaged in your letter were received from Canada for delivery before 31st March XXX, it would necessitate purchase from Czecho Slovakia or the creation of another source of supply.

I am to state that the council are considering the desirability of creating a second source of supply for their own requirements, and their decision in this matter would be influenced by whether or not the Canadian government decided to place an order in this country.

I am to add that the question appears to be one which might with advantage be dealt with in the first stage by discussion, and the Director General of Munitions Production would be prepared to place before you such information as he possesses if you would care to arrange an interview.

I am, sir,

Your obedient servant,

A. E. WIDDOWS.

The Secretary,
Office of the High Commissioner for Canada,
Canada House, S.W. 1.

The implication of this communication was such as to bring the department face to face with the following situation:—

1. The war department requirements were now covered by the existing arrangements made for manufacture in Great Britain.
2. If we gave an order to England for 7,000 guns a secondary source of supply would be set up in England.
3. On the other hand, if the War Office would agree to place an order for 5,000 guns in Canada, we would be able to establish a source of supply in our own country.

We would then be spending the money for Bren guns on the employment of Canadian industrial workers. In addition, we would be creating employment for Canadian workers in production for Great Britain.

There was the added factor of great military importance that we would be establishing for Canada a securer source of supply and for Great Britain an alternative source remote from the risks of enemy action. The committee should bear in mind that when any order of this sort is placed abroad by our department, it is always subject to the risk that in an emergency the country in which the equipment is being produced will take it for its own use.

It was for these reasons that the facts of our departmental activities in connection with the Bren gun for the next nine or ten months were as described by Commissioner Davis at page 44 of his report.

That the Canadian Department pressed the War Office in the matter up to at least November, 1937, is frankly admitted. The minister stated the situation generally in these words in his evidence:—

" . . . it was a sustained endeavour to press the British authorities for a decision as to whether they would produce in Canada or not. That is the tenor of all the correspondence for nine or ten months in 1937—a sustained endeavour to obtain a decision from the War Office as to whether or not they would place an order for Bren guns in the Dominion of Canada. That was carried on until November of 1937, I think."

I have no hesitation in saying that I deemed it advisable to support the department in its desire to establish the production of Bren guns in Canada and we did vigorously seek from the British War Office a decision on their part that they would co-operate in establishing a source of supply for both our own and the British government. However, it was not settled for some time that, in the event of the War Office agreeing to place an order in Canada, whether it could under the agreement with the patent owners be carried out in a private factory.

That is clearly indicated in the letter from the Deputy Minister of National Defence to the Under Secretary of State dated March 23rd. This letter was before the Royal Commission as Exhibit 126 and I should like to direct attention especially to the end of paragraph 3.

EXHIBIT 126

March 23rd, 1937.

Dear Mr. Skelton,—

I am informed that Major J. E. Hahn intends to proceed to England next week on private business, which has nothing to do with armaments or munitions, but rather in connection with ordinary commercial matters.

You will recall that we have not yet had a reply from the government of the United Kingdom to our suggestion that it would be of great strategic value were Bren machine guns manufactured in Canada. It is well known that this cannot be done unless an order for not less than 5,000 Bren machine guns is placed with the Canadian factory. If this were done, then the Canadian government would be able to purchase this weapon in Canada at a reasonable price. If the gun were made in this country, I am convinced that we would get earlier deliveries than if purchases were made in Great Britain.

May I ask whether it would be possible for your department to inform the High Commissioner of Major Hahn's intended visit to London, so that he might prepare the way for Major Hahn, who, I am

certain, would be very pleased indeed to see Sir Thomas Inskip and Sir Harold Brown again in regard to the manufacture of the Bren machine gun in a Canadian factory, WHETHER OWNED OR CONTROLLED BY CANADIAN GOVERNMENT OR BY PRIVATE INDIVIDUALS.

From reports I have received, Major Hahn got along splendidly with Sir Thomas and Sir Harold when he was in England last November, and I am certain that if Mr. Massey were to let them know that the Canadian government is intensely interested in this subject Major Hahn would expedite decision.

It would be very much appreciated if you would be good enough to let me know what may be expected in this connection some time this week, if possible.

Yours sincerely,

L.R.L.

O. D. SKELTON, Esq., M.A., Ph.D.,
Under-Secretary of State for External Affairs,
Ottawa, Ontario.

So we have it that as late as March 23, 1937, no authority had been secured for the manufacture of these guns in a privately owned factory in Canada.

Clearly we could not call for tenders at that stage.

At that time we were seeking to ascertain whether we could get the co-operation of the British government towards Canadian production and until that point was settled no production in Canada either by private enterprise or public operation could be decided on.

We were pressing for that decision, but we were not pressing the War Office to give Major Hahn a contract.

Under the circumstances just described Major Hahn returned again to London and was apparently successful in interesting Sir Thomas Inskip and Sir Harold Brown in the practical advantages of Canada as a secondary source of supply for Britain's own requirements.

This success is indicated by the terms of Major Hahn's letter to Colonel LaFleche dated May 10—which letter was before the commission as exhibit No. 142.

THE MAYFAIR HOTEL,

LONDON, W. 1, 10th May, 1937.

FRANCIS TOWLE, C.B.E.,
Managing Director.

Colonel LAFLECHE, D.S.O.,
Deputy Minister of Defence,
Arlington House, London, W. 1.

Dear Colonel LAFLECHE,—A meeting was held this morning and the following were present:

Sir Harold Brown, D.G.M.P.,
Mr. Bedford, Asst. Director of Contracts, and
Mr. Robinson, Supt. of Royal Small Arms Plant.

The proposal "A" submitted had been reviewed and the following is a resume of the points brought up.

LICENCE AGREEMENT

1. "A"—Present British Government Licence embodies rights to sub-license to Dominion Arsenal, does not carry right of sub-licensing in Dominions to private manufacture.

"B"—Sir Harold would like to know from you

- (1) Do you wish to negotiate an extension of this agreement to cover private manufacture in Canada direct with Czecho-Slovakia, or
- (2) Do you wish the British government to arrange such an extension?

2. It was pointed out that the royalty to be paid under this agreement would be a net amount indicated in the licence and not less any government tax.

3. It was pointed out that £30,000 cash consideration will be paid by the British government for this licence and it was suggested that Canada bear a portion of this. Sir Harold, however, suggested that he did not believe this matter would be pressed.

EXHIBIT No. 34

REVIEW OF PROPOSAL "A" SUBMITTED

It was considered: 1. The estimated cost of the Bren gun was reasonable.

2. Profit margin of 9.39% after Federal tax was reasonable.

3. Estimated time of production considered optimistic. Considered that we should require two years, from time of commencement, rather than eighteen months to reach production period.

MECHANICS OF PROCEDURE OF PLACING ORDER

1. It was considered that simplest method would be for British government to place order direct with Canadian government and hold Canadian government responsible for

"A" Execution of the order.

"B" Government inspection would be required by the Department of the M.G.O.

"C" Price would be at an estimated cost with such variables to be decided at a further conference.

1. It was pointed out that the estimate does not include the Tripod. The percentage increases in alloy machinery and labour, since this proposal has been submitted, were indicated.

2. It was believed that this matter would be dealt with during the Imperial Conference and it was suggested that it might be arranged to be placed on the list for early disposition.

Sir Harold is awaiting to hear from you at your convenience to deal with the matters raised in this report.

Yours very faithfully,

(Sgd.) J. E. HAHN."

This letter clearly indicates that at a meeting with Sir Harold Brown, Mr. Bedford, the Assistant Director of Contracts, and Mr. Robinson, the superintendent of the Small Arms plant, the question of getting a licence to manufacture in a privately owned plant in Canada was under active consideration.

Major Hahn's report to the deputy minister on May 10 was also significant because it reveals that he had himself made substantial progress with the British War Office as to the terms of an actual contract by which his particular company would manufacture for the War Office. There are specific references to a profit margin of 9·39 per cent after federal taxation being considered reasonable and as to the time of production. It is important to note also that the British government favoured placing the order directly with the Canadian government and holding us responsible for the execution.

As to the desire of the war office to place its Canadian order directly with the Canadian government which should act as agent for the British government, an important decision was made by our own government which I referred to in my own evidence before the Royal Commission. At pages 2315, 2316 and 2317, you will find the references. I pointed out that all four members of the defence committee of the Cabinet were members of the delegation which attended the Imperial Conference and that there was with us, in addition, the Honourable Mr. Crerar, who was not a member of the defence committee.

May I now quote briefly from the transcript at page 2315 of the evidence before the Davis commission:

Q. While there was the Canadian policy with regard to co-operation between the United Kingdom and Canada regarding munition supplies decided upon?—A. I would not say it was definitely decided upon, but it was definitely laid down.

By Mr. Green:

Q. Is that yourself answering the question?—A. Yes, that is my evidence.

After consideration with my colleagues, I explained exactly the policy myself at the meeting of that committee.

Then at page 2316 I added:

A. It was unanimously agreed upon and I was authorized—every single statement I made at the Imperial Conference before the main body or in committee had the unanimous endorsement of my colleagues before it was made. I say that specifically.

Then, after some further remarks by Counsel and the Commissioner, I said at page 2316:

A. In regard to the question of the manufacture of armaments in Canada, we as a government took the stand that we would not by ourselves, or as agents for any other government, enter into the manufacture of arms for any other government. But we would welcome and appreciate any order given to a Canadian industry or by any other government, and would be very willing indeed to give them all the information at our disposal with reference to their suitability and financial status—but that neither by us, with us, or through us, would any contract be entered into by another government.

Q. When you say through you mean as an agent?—A. Yes, as an agent.

Q. As an agent of the other government?—A. Yes.

Q. That is to say you would not take orders yourself and neither would you act as agents for another government in placing them?—A. That is correct.

Q. Other governments had to make a direct contract?—A. With Canadian industry, and in that case we were only very glad to co-operate to the extent of our powers.

In the light of that statement of the Canadian government's attitude communicated by me to the committee of the Imperial Conference and thereby made known to the British government, and also, no doubt, in consequence of the progress made by Major Hahn in convincing the war office officials of his ability to carry out successfully the industrial operation in connection with the production of Bren guns, the British government succeeded in effecting a modification of its agreement with the patent owner by which the war office was enabled if it saw fit to issue a licence for the production in Canada by a private industry. It will be remembered by your committee that the original licence contemplated manufacture in the dominions only in a government arsenal.

The evidence also shows that while in London at the Imperial Conference General LaFleche received from Major Hahn draft of a proposed contract because on June 4, 1937, General LaFleche wrote to Sir Harold Brown (Exhibit 146) turning over to him the draft proposals for the consideration of the war office. In this letter, General LaFleche stated that the proposal had not been studied in detail by the Department of National Defence although many of the principles mentioned had already been approved in Canada.

On June 5th Sir Harold Brown replied (Exhibit 147) agreeing to have the draft contract studied to see how far it would be suitable from a war office point of view and also indicating that the war office was willing to accept data and estimates from the Department of National Defence for revision.

These two letters should be especially noted.

Exhibit 146.

CANADIAN DELEGATION IMPERIAL CONFERENCE, 1937

Secret

ARLINGTON HOUSE,

St. James's,

London, S.W.1.,

June 4, 1937.

DEAR SIR HAROLD,

With reference to previous discussions concerning the possibility of manufacturing the Bren light machine gun in Canada, I beg leave to forward herewith two copies of a letter, dated June 3, 1937, addressed to me by Major J. E. Hahn, D.S.O., M.C., on behalf of the John Inglis Co. Limited, of Toronto, Canada. I am sending these documents to you as, presumably, you would care to see the proposal at the earliest possible date. The extra copy is for the Technical Sub-committee if you care to submit it.

The proposal has not yet been studied by the Department of National Defence (Canada) but many of the principles mentioned by Major Hahn in his draft agreement have already been approved in Canada.

Sincerely yours,

(Signed) L. R. LAFLECHE.

[Hon. I. A. Mackenzie, K.C.]

NOTE: I spoke to the Hon. the Minister before writing this letter.

L. R. L.

Vice Admiral Sir HAROLD BROWN, K.C.B.,
The War Office,
Whitehall,
London,

Exhibit 147.

WAR OFFICE,

WHITEHALL, S.W.1.,
5th June, 1937.

Dear Colonel LAFLECHE,

I have to thank you for your letter of 4th June with enclosed copies of a letter from Major Hahn, with proposed draft agreements for the manufacture of Bren guns in Canada.

I will have this studied to see how far this would be suitable from our point of view in the event of our placing orders for these guns in Canada. As regards the latter, I presume you will be forwarding concrete proposals officially in due course, together with all appropriate data, estimates, etc., provisional copies of which latter have been handed to me by you, but which Major Hahn has now withdrawn, I understand, for revision.

I shall be glad if you will confirm the above or will let me know if you are expecting the next action to come from me.

In the meantime I am arranging for you to discuss the licence question with the Director of Army Contracts.

Yours sincerely,

(Signed) H. BROWN.

Lieut.-Colonel L. R. LAFLECHE, D.S.O.,
Canadian Delegation,
Arlington House,
St. James's,
S.W.1.

It is apparent at this early stage that Hahn had definitely opened direct negotiations with the war office authorities for a contract, although the matter had not yet been settled as to how such guns could be produced in Canada. When this became apparent, namely, that the British War Office was prepared to negotiate with and issue a licence to Hahn's company, the officials of the department were fully justified in my opinion in rendering this Canadian company every possible assistance in obtaining a British government order for Canada. And they did so.

Some criticism has been directed at me because I did not personally investigate Major Hahn and his associates, The John Inglis Company and its previous history.

But because I made no personal investigation of these matters, it does not follow that I was not informed by the responsible officials of my department that they had made such investigation.

If I had made this, I would have made them through departmental officials in any event, and no more information than was placed before the interdepartmental committee could have been placed before me.

As a matter of fact, at this stage in May and June when we learned that the war office was prepared to deal with Major Hahn, I obtained something of his record from the Bank of Montreal. The Bank of Montreal letter, Dun's report, and the fact that Major Hahn was able to establish his position with the British War Office was sufficient for me and, in fact, since then we have had Sir Harold Brown's letter of approval and satisfaction with his contacts with Major Hahn.

I quote from Exhibit 227, a bulky exhibit consisting of Sir Harold Brown's letter to Colonel LaFleche, dated February 11, enclosing a series of suggested amendments to the draft contract. The first paragraph of this letter says:—

By Mr. McGeer:

Q. What year?—A. Exhibit 227.

Q. And I think it is 1938?—A. February 11th, 1938. The first paragraph of this letter says:—

During the past few days we have had some long discussions with Major Hahn, in which we have been greatly assisted by the excellent way in which the two draft contracts had been drawn up.

The only point there is that in regard to the war office contract the Canadian government was carefully revising and reviewing the suggestions made by the British War Office.

Q. What year?—A. Exhibit 230.

Q. What year?—A. February 16, 1938.

I might add that we found Major Hahn most helpful and am full of admiration for the businesslike way he has gone into the proposition and for the drafting of the proposed contracts.

By Mr. Green:

Q. Will you read the first paragraph of that, Mr. Minister?—A. Of the letter of February 16th?

Very many thanks for your letter of 31st January, and for your cables, etc., regarding the Bren gun position, which I hope is now all clear. I shall hope to hear from you very shortly to this effect. I quite appreciate your position in this matter and I hope my replies to your cables have met requirements.

Do you want the whole thing read?

Q. Oh, that is all right.

THE WITNESS: While, as I have shown from the evidence, Major Hahn had been successful in opening negotiations with the war office for 5,000 guns to be produced in Canada, we as a government had made our decision that we would not act as agent for the British government in any contract with private industry in Canada. At this point I should perhaps give reasons for this decision.

One reason for this was that we had earlier decided that we were not prepared or able to set up a public arsenal for this weapon because the government was not ready to finance a general program of public armament manufacture in Canada.

Nor was the government prepared to accept the responsibility of supplying to the war office 5,000 guns to be produced in a privately owned Canadian factory.

Quite apart from the criticism that might have been levelled at us by those who are opposed to anything savouring of co-operation with Great Britain on the ground that it would involve committing us to supporting Great Britain in

[Hon. I. A. Mackenzie, K.C.]

war, there were other practical considerations. While we might accept guns for delivery to the British War Office, they might find that the guns which we had accepted were not up to their standard of specification. In the course of carrying out any such agreement it is impossible to foresee which of many possible grounds for disagreement might arise. For that reason we felt that if guns were to be made in Canada for the British War Office the contract must be between the war office and the manufacturer directly.

As a matter of fact, we wanted for our own contract the protection and the security that we thought we would obtain if in giving a contract we could be assured that the same company had been able to satisfy the war office officials that it was a company satisfactory to them. We wanted that assurance before we would enter into a contract of this nature with the John Inglis or any other company.

That is one reason why throughout the whole negotiation the Department of National Defence insisted that before a contract would be made between the government of Canada and the John Inglis Co., that company must be able to show that it had an undertaking from the British government for the production of 5,000 guns.

We pressed for a decision on this matter because until that decision was made we had no certain and secure source of supply of Bren guns for Canadian defence.

By Mr. Brooks:

Q. In the purchase of other supplies from England that you purchase through the war department in England, do the war department in England insist that you make your purchases direct from the different companies?—A. No; both ways. We get many of our supplies from the Air Ministry and the High Commissioner in London, our own Commissioner, and others directly from the companies.

Q. The war office in London was not as particular as you?—A. No; they did not have the same reservations that we had in that regard.

Mr. ISNOR: Not quite as keen.

Mr. BERCOVITCH: Let us have the statement.

The WITNESS: I am sorry I am taking so long. I will be through shortly.

Mr. BERCOVITCH: It is very interesting, take your time, please.

The WITNESS: There was no secret about the situation that existed. It was, in fact, fully reviewed in a letter dated October 21, 1937, from the Deputy Minister to the High Commissioner in London (Exhibit 176). Then, follows the letter from L. R. LaFlèche to Mr. Massey.

Mr. McGEER: Mr. Chairman, these letters that are not read, are they going to be incorporated in the statement as read?

The WITNESS: Perhaps they might consent to that.

Mr. GREEN: If they are going to be put in as a whole they must be read.

The WITNESS: The only reason I did not read them is they are already in the evidence in the other documents.

Mr. McPHEE: I think in order to keep the record clear they should all go in.

Mr. BERCOVITCH: They can go in without the Minister actually reading them.

Mr. GREEN: At least the parts to which he refers should appear in the record.

Mr. BERCOVITCH: The committee has got the right to dispense with reading them and have them included in the record. You have the actual numbers and you can verify the correctness of the quotation as it appears in the minutes.

Mr. GREEN: Now is the time for us to know. We do not want to take the whole thing if it is not read.

The WITNESS: I am in the hands of the committee and would be very glad to read them.

Mr. GREEN: The trouble is there are only a few copies of the exhibits and it is physically impossible for every member of the committee to refer to the exhibits.

Mr. BERCOVITCH: Let us get ahead and read them.

Mr. GOLDING: If they are put on the record now we shall all have a chance to get them. I do not think it is necessary to read them all. When you have them on the record you can read them.

Mr. McGEER: Let us get on with it one way or the other. Let us have them read.

The WITNESS: This letter is marked "personal" and is as follows:—

Dear Mr. MASSEY:

My Minister—

Mr. GREEN: What exhibit number is that?

The WITNESS: Exhibit No. 176.

Mr. GREEN: October 21, 1937?

The WITNESS: Yes.

Mr. FACTOR: Is it your intention to read the whole letter?

The WITNESS: I am in the hands of the committee.

Mr. McPHEE: Why not put it on the record without reading it.

The WITNESS: If the committee so decides.

Mr. FACTOR: If the Minister wants to refer to any particular paragraph, all right. I do not think he should be asked to read the whole letter on the record.

The WITNESS: With the consent of the committee I will place the whole letter on the record.

Mr. FACTOR: Yes, I would so move.

Mr. GREEN: What part of this letter is the Minister referring to?

The WITNESS: The entire letter.

Mr. FACTOR: Instead of reading it I would move that it be placed on the record now.

Mr. GREEN: I think it is better for all concerned that the letter should be read, then we know exactly the point.

The WITNESS: All right.

Dear Mr. MASSEY:

My minister had desired that I let you have, this afternoon without fail, a very brief explanation of our difficulty in arranging for the supply of Bren machine guns. In this connection may I say:—

In March, 1936, a copy of the agreement which the British authorities made with the patentees of the Bren gun relative to production in the British Empire was received. From this it was apparent that Bren guns could be obtained in Canada by any one of the following methods:

(a) by direct purchase from war office.

(b) by manufacture under licence from the Secretary of State for War in a Canadian government factory.

(c) by manufacture in Canada under an agreement direct with the patentee to meet local requirements not covered by the British agreement.

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It is estimated that 7,000 Bren guns are required for the Canadian forces.

Steps were taken to compile information regarding the most desirable method which might be adopted to obtain Bren guns in Canada, taking time and cost into consideration.

Having followed this matter closely for more than one year, it is considered that no substantial number of Bren guns can be obtained through the war office for some years and it is felt that it would not be wise to look to this source for our supply except, of course, for a few for experimental and training purposes. It is to be understood of course that the cost of manufacturing the gun in Canada would necessarily be greater than if made in England because of higher wage rates.

A private citizen of Canada, Major J. E. Hahn, D.S.O., M.C., has evinced great interest in the possibility of producing the Bren gun in Canada. With the knowledge of the department he has made more than one visit to England where he has been able to discuss the matter with high war office officials who let him understand that the government of the United Kingdom might be very pleased to see an auxiliary source of supply established in Canada. Indeed, he discovered possibilities of receiving an order for, say, 5,000 guns from the government of the United Kingdom. It is believed that Major Hahn could readily proceed with production in Canada.

The department is extremely anxious to know whether the government of the United Kingdom intends to place an order for Bren machine guns in Canada. As soon as definite information is received, the department will proceed to the best advantage as the guns are very urgently required.

May I take advantage of this opportunity to express thanks again for the assistance you have so readily given in matters of immediate interest to the department.

Sincerely yours,

Sgd. L. R. LaFLECHE,

Deputy Minister.

The Hon. Vincent Massey, P.C., M.A., LL.D.,
Government House,
Ottawa.

He was evidently in Ottawa at that time.

On November 5, through the High Commissioner we finally received word that Sir Harold Brown had phoned to say his department had received authority to negotiate a contract for Bren guns, the terms subject to discussion.

And on November 9, Sir Harold Brown cabled to General LaFleche (Exhibit 182) that the "war office is now ready to negotiate for purchase of 5,000 Bren guns manufactured by John Inglis."

It was not until this date that we were in a position to arrange for production in Canada. Until the British War Office had decided to negotiate a contract in Canada, the small number that we required prohibited us from proceeding by Canadian production either in public or privately owned plant unless we were prepared to pay an unreasonable cost per gun.

The decision of the British War Office it will be noted designated the manufacturer with whom it was prepared to negotiate.

Major Hahn had succeeded in convincing the war office that a secondary supply base could be established in Canada. He had also succeeded in con-

vincing them that he was competent and able to fulfil the contract. And it was intimated to us by the war office that he would be licensed and would receive a contract if he could meet terms acceptable to the British War Office.

The Department has been criticized because it accepted the decisions of the British War Office and proceeded to negotiate a contract for 7,000 guns with a Canadian company that had an undertaking, subject to agreement on terms, to manufacture the same gun for the war ministry of the United Kingdom.

What I wish to point out to the committee is this, that from the very moment we received information that the British War Office had secured a licence to manufacture Bren guns in Great Britain and the dominions up to the time that the British government indicated its willingness to produce guns in Canada (November 7, 1937) we were never in a position to produce ourselves or to call for tenders. When we eventually did secure the knowledge that an order for production in Canada would be placed by the war office we were precluded from calling for tenders because the war office, in accordance with its practice, had selected the John Inglis company as its Canadian contractor.

Now, Mr. Chairman, I want to place this position before the committee. Since the close of the war, the Canadian Department of National Defence had little or no experience in the purchase or production of defence equipment on a large scale.

The Bren gun is a patented device. Production involves the use of secret and patented processes. A licence to manufacture was necessary. It was not the type of ordnance that permitted the calling of public tenders and, normally, if tenders could be considered at all, it would be only from a small list of selected manufacturers who had established positions of competence and trust with the war office and the Department of National Defence.

Production of this type of equipment therefore obviously involves a contract of the type where the Department of Defence would either produce in its own plant or select an individual contractor. This course is followed in Great Britain, and we in Canada followed British War Office practice. No doubt, Major Hahn's splendid war record, both in the field and as an intelligence officer had much to do with his securing the favourable consideration that was extended to him by Sir Thomas Inskip, Sir Harold Brown, and the officials of the war office.

When this matter came before the interdepartmental committee, that committee, as you have been fully informed, felt that tenders should be called for. It was pointed out by the Deputy Minister of National Defence that the British war office would not agree to calling for tenders. Notwithstanding this fact the committee cabled to the war office and was informed by the war office, as the evidence clearly shows, that if tenders were insisted on by the Canadian government it would withdraw its co-operation.

It has been said that when Major Hahn proposed to the Department of National Defence that he might be able to produce guns in Canada, the department should then have proceeded to ascertain whether or not there were other Canadian manufacturers able to make the same investigations and able to undertake the same program of negotiations that Major Hahn assumed.

As it happens, the idea of manufacturing the gun in Canada was developed by Major Hahn shortly after the first sample guns had been received by the department. The department had no reason to believe that the gun could be manufactured in Canada by Hahn or anybody else and certainly as the evidence reveals, no manufacturer in Canada could have undertaken to manufacture the Canadian government's requirements of 7,000 guns except at prohibitive costs.

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By Mr. Brooks:

Q. When did you receive these two guns that were brought here?—A. I think it was 1936.

Mr. McGEER: February, 1936.

The WITNESS: February, 1936, I think, but I am subject to correction. I think they were seen in the office by Hahn. That is my recollection but I am not definite about it.

Mr. FACTOR: Mr. Justice Davis says in his report that some three or four weeks after Lieutenant Jolley returned to Canada in August, 1936, two Bren machine guns which had been ordered arrived in Canada.

The WITNESS: Thank you.

It was because Major Hahn was willing to pursue the idea of possible Canadian manufacture that the production of guns for the British war office developed. We had no reason for believing even after Major Hahn had made his report that the British war office would give any order for the manufacture of such guns in a Canadian plant. In fact, our information in December, 1936, was to the contrary. I have already mentioned the letter from Canada House informing us that the war office requirements were fully met.

That Major Hahn secured a contract for the manufacture of Bren guns in Canada was in my judgment due solely to his own enterprise and initiative and his ability to convince the war office that he could establish a supply base for Bren guns in Canada that would add to the security of possible war office requirements in the event of an emergency.

If after Major Hahn had undertaken and successfully obtained such an undertaking we had insisted that tenders should be resorted to, we would have been adopting a course of procedure that would not have found favour with the war office and its idea of carrying out its ordinary contracts.

By Mr. Green:

Q. What was the date of that letter from the war office?—A. That is one I read a few moments ago, Mr. Green.

Q. No; you just referred to it.—A. I placed it in the evidence some minutes ago.

Q. You do not have the exhibit now?—A. I have not got it.

The CHAIRMAN: I will give it to you in a minute.

The WITNESS: I desire to summarize the reasons for not calling for tenders.

We did not call for tenders for the Bren gun for the following reasons:

1. We were never in a position to offer a contract or to issue specifications for the manufacture of Bren guns in Canada on which Canadian manufacturers could have tendered. In fact, it was so well understood by our departmental officers that specifications covering these secret and patented devices are never distributed among miscellaneous contractors for competitive bidding that within the department, at least, the question hardly arose.
2. The transaction was of the type that if we were to have the co-operation of the British War Office we had to fall in with their procedure of selecting a contractor who would be willing to agree to fix a definite limit of profits and place the supervision of operation and cost under government control.
3. When the British War Office selected the John Inglis Company we had no alternative but to accept their selection or lose the advantage of their co-operation.

I come to the second issue that seems to me your committee may be concerned with, the point raised by the Honourable Mr. Justice Davis at page 49 of his report when he says:

What is more important after all is whether the procedure adopted in making the contract was that best calculated to protect the public interest and to secure the confidence of the people of Canada that there would be no improper profiteering in the private manufacture of war armaments for the defence of the country. That is a question upon which the government and parliament in the light of the evidence brought before the commission must pass.

Having dealt with the fact that tenders were not called for, I would like to refer to this second feature particularly because of the fact that Mr. Justice Davis in his report rather left it open to be inferred by the casual reader that the Department of National Defence depended in this matter wholly upon the judgment of Lieut. Jolley in technical matters and upon Colonel Orde as legal adviser.

Referring to Lieut. Jolley, who has been before this committee, at page 35 of his report: "Lieut. Jolley was 23 years old when he graduated at McGill in 1933." It will be noted by members of this committee, I am sure, that Mr. Jolley was four years older than that when he reported on the technical features of this contract in 1937. The commissioner then goes on to say:

I told him during his evidence that I pictured him sitting in his own room, very carefully and meticulously examining these different proposals, and asked him if that was a true picture or was he discussing these matters at all times with some group of men. To this he answered: "I worked independently in making any comments on these proposals. They were my own, prepared entirely independently of any discussions with other personnel."

The commissioner goes on to say that Lieut. Jolley impressed him as an earnest and scholarly young man skilled in his own technical branch but obviously without the business experience and judgment necessary for dealing with a proposed business contract of an intricate nature involving the expenditure of millions of dollars.

Then the commissioner recalled at the end of Lieut. Jolley's evidence he had asked him:

Q. Prior to December, 1936, had you really had any experience in dealing with contracts of this kind?

A. No, I had not.

Then again at page 42 the commissioner commented that "No lawyer (excepting Colonel Orde who as Judge-Advocate General had multifarious duties and would not claim to be a commercial lawyer) passed upon the intricate terms and conditions of the contract for the department; apparently the Department of Justice was not consulted."

The undisputed facts are that, while Lieut. Jolley as technical officer in the department, did report upon the technical features of the preliminary proposals which in this instance he was competent to deal with because he had spent considerable time in the Enfield plant during the preparatory stages for the production of the Bren gun there, it is not correct to assume that Lieut. Jolley alone passed on these features. When the commissioner finds that Colonel Orde was the only lawyer who passed on the intricate terms and conditions of the contract, he overlooked the fact both with respect to

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Colonel Orde and Mr. Jolley that the contract with the Canadian government was passed and approved by the director of contracts and the lawyers and officials of the British War Office. That is clearly in evidence as General LaFleche pointed out to the Interdepartmental committee that the Department of National Defence would not agree to a contract which was not approved by the British War Office.

In addition to the approval by the British War Office, all the terms of the Canadian contract were examined and revised and finally passed and approved as acceptable by the Interdepartmental committee which included in its membership Mr. Fraser Elliott, K.C., as well as the following outstanding members of the Canadian Civil Service:—

Dr. W. C. Clark, Deputy Minister of Finance.

Ronald Sharpe, Esq., Chief Inspector of Income Tax.

C. W. Bolton, Esq., Chief Statistician, Department of Labour.

Herbert Marshall, Esq., Statistician, Department of Trade and Commerce.

Dr. A. K. Eaton, Taxation Investigator, Department of Finance.

Charles Burns, Esq., Assistant Deputy Minister of National Defence.

Lieut.-Col. L. R. LaFleche, Deputy Minister of National Defence.

The first draft contract proposed by Major Hahn and received by Colonel LaFleche in London was at once handed to Sir Harold Brown, the director of contracts in the British War Office, in June, 1937.

The last revision of the Canadian contract was made in the British War Office after the interdepartmental committee had agreed to its terms, and the final amendments proposed by the war office were accepted and incorporated in the Canadian contract.

I venture to say this is one of the rare occasions in the history of Canada when the people are afforded the assurance of the approval of the high officials of the British War Ministry as a safeguard and protection to their interests against improper profiteering in the manufacture of armament for the defence of this country.

Let me put it to this committee: What other course of procedure could we have followed that would have guaranteed any greater measure of production?

We acknowledge our own lack of experience but in that lack of experience we took the precaution of having the course which we followed taken first by the British War Office. In addition to that we sought and obtained the advice of a strong interdepartmental committee; and lastly the British War Office checked and approved all the terms of the contract which we agreed to and signed.

Now I come to the third issue arising from the report of the royal commissioner when he said at page 41, referring to the interdepartmental committee:—

The system broke down when the committee failed to report back to the body that had created it . . . there is not a suggestion that the members of the government ever heard of these difficulties which confronted the committee or of the attitude that was taken by members of it to the proposed contract.

By Mr. Green:

Q. There was a line or two left out, was there not?—A. Yes, a few words in hiatus, would you like me to read them in full for the purposes of the record? Will you please read that in full?

Q. After the first sentence:—

Their failure to report was not a matter of misconduct; it was a failure to recognize the importance of their committee as a part of the administrative system of government.

And then it continues as you have read.

The WITNESS: It would appear that not all the evidence before the royal enquiry was equally well remembered by the Commissioner at the time he was writing his report.

In so far as any reflection rests upon the members of the interdepartmental committee arising out of these remarks by the Royal Commissioner, I should like to point out that the order in council appointing the interdepartmental committee did not apparently contemplate that the committee should report. The committee was set up as an advisory and consultative body to meet the officers of the department concerned to consider, not whether competitive bids should be called, but the terms and conditions of contracts in connection with which the negotiating department had found that calling for competitive bids was impracticable.

As a member of the government, I think it only fair to the members of the interdepartmental committee to draw attention to the terms of the order in council which created it, and I think members of this committee would find a perusal of that order in council of interest before they make any comment upon the issue which arises from the remarks of the Honourable Mr. Justice Davis to which I have just referred.

It may be that a stronger order in council would have been better, but it should be borne in mind that the government was calling upon a group of busy officials to perform additional duties outside of their own department, and there was undoubtedly a disposition not to place upon them any final responsibility, to make use of their services in a purely advisory capacity and to leave the final responsibility with the department and the government itself.

Certainly, the government has come to the conclusion that the machinery of the interdepartmental committee is no longer adequate and the Defence Purchasing Board legislation of the present session is a definite assumption of responsibility to set up a more authoritative and responsible body to deal with these difficult types of contracts.

By Mr. Green:

Q. Pardon me, Mr. Minister, could you give us the reference to the order in council appointing the interdepartmental committee?—A. It is an exhibit.

Mr. McGEER: It is on file.

Mr. FACTOR: It is on file in the records of the committee.

Mr. GREEN: I will let it go for the moment. I wanted the number of the exhibit.

The WITNESS: Shall I proceed in the meantime?

Mr. GREEN: I think we might have that?

The WITNESS: Yes, certainly. It is Exhibit No. 46, Mr. Green.

By Mr. Green:

Q. That was not the one appointing the interdepartmental committee, was it?—A. Yes.

Q. Dated March 5th, 1937?—A. Yes.

However, after making those observations with reference to the interdepartmental committee, I am glad to be able to say that there was evidence before the Royal Commissioner that the interdepartmental committee through

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its chairman did make a most comprehensive report to me in Exhibit 244. I am also able to inform this committee that that report was by myself placed before the members of the government and I fully explained the whole situation to the members of the government before the contract was approved by order in council.

The report to which I refer as Exhibit 244 gives a very complete story of the differences of opinion which developed within the committee on the subject of calling for tenders and other matters.

Here then we have the method of negotiating the contract, a method in which every facility available in our own department was employed to protect the public interest.

In addition, we had the assistance of the interdepartmental committee, and in addition to that we had as our final revising authority on the terms of the contract all the facilities at the disposal of the British War Office.

By Mr. McGeer:

Q. Just pardon me, Mr. Minister; how is that report signed, do you remember?—A. There were two reports. Before I recommended the order in council to my colleagues in the cabinet I asked the deputy minister to get the two reports; one was for more or less certifying that the financial provisions of the contract were satisfactory to the interdepartmental committee; and, secondly, a more thorough report outlining the history of the discussion by the committee themselves with respect to the entire situation so that my colleagues would be entirely aware of the history of the negotiations leading up to the consummation of the contract.

Q. At the time of the discussion dealing with that order in council, can you tell me whether that report was signed by the chairman of the departmental committee as well as the deputy minister?—A. It was signed by both, the deputy minister signed it in his capacity as deputy minister and also in his capacity as chairman of the interdepartmental committee.

Q. That is Exhibit 244?—A. That is Exhibit 244; I have the original here exactly as it was filed before the royal commission. It is signed in the dual capacities of deputy minister and chairman of the interdepartmental committee.

Mr. GREEN: There are two different documents in Exhibit 244, I think.

Mr. McGEER: There is the one that contains the matter of the dispute as to the question of tenders, and that is signed by the Deputy Minister of National Defence and also by him as chairman of the interdepartmental committee.

Mr. GREEN: He signs as both?

The WITNESS: Yes. Would you like to see the document?

By Mr. Green:

Q. Are these two letters the reports which are listed as Exhibit 244 of the proceedings before the Royal Commission?—A. No, the other one is Exhibit No. 243. You will notice that the one report is signed by the deputy minister, while the other one is signed by the deputy minister and the chairman of the interdepartmental committee.

Q. Then if you would just turn over the page you will see there is another document of the same date which is listed as a part of Exhibit No. 244?—A. Yes, that seems to be a memorandum which is unsigned.

By Mr. McGeer:

Q. That was the memorandum attached to the report?—A. That is the memorandum upon which the order was based, I presume.

By Mr. Douglas:

Q. Are these addressed to yourself or to council?—A. They are addressed to the minister, signed by the deputy minister and the chairman of the inter-departmental committee and read by myself to council before the contract was approved by council.

Q. I was referring to the memorandum of the order, and also to the draft memorandum attached; was that also read in council?—A. I could not be specific on that point, but I am really sure that the related memorandum was with me, this official document (indicating) was absolutely complete by itself and it was read by me to council.

By Mr. Green:

Q. Then there is a letter from yourself to His Excellency the Governor in Council dated March 17, 1938, part of Exhibit 245; what is that?—A. I wonder if I could finish this first?

Q. It is all involved in the same thing. You said you read the report from the deputy yourself, this exhibit 245 is the report from yourself direct on some matter to the cabinet?—A. That is the customary recommendation to council. That is a formal document; because this was for the information of myself and council, apart from the actual recommendation to council. May I explain to my hon. friend; first of all there is a recommendation from the minister to council, and based upon the recommendation to council if it is approved there is then the Order in Council which is drawn up by the Clerk of the Privy Council. That is the procedure. This is the actual recommendation by the minister to council (indicating); this was the document for the information to be handed by him to council (indicating).

Q. Then you read both your formal reports to the cabinet and also the report from your deputy minister?—A. The formal report is always read by the presiding officer of council, whoever it happens to be; it is not read by the minister at all. The explanation was given by myself to council.

MR. BERCOVITCH: Let us have the rest of the statement, Mr. Minister?

THE WITNESS: Now as to the other point raised by the Commissioner—the substance of the contract.

The true test of this is to be found in the results produced by the contract. I do not think there is any contract on record in the whole history of our Dominion under which the results being secured are more satisfactory than those which are being produced as the terms of this contract are being fulfilled.

As a result of this contract, Canada will have her requirements of Bren guns for Canadian defence as determined by the General Staff at prices which are actually less than cost. This arises from the fact that the war office is paying one-third of the cost of the machinery which remains the property of the government of Canada.

According to the evidence of a responsible and competent witness, Mr. Gillespie, formerly at Enfield, we will have in Canada a small arms factory capable of producing Bren guns and Enfield rifles in an emergency which is more efficient than the Enfield plant in England. Mr. Gillespie said that the Inglis company was running ahead of the Enfield schedules.

The guns produced for our requirements will be produced at a saving of more than \$1,250,000. over and above what we would have been called to expend for them had we produced the guns without the co-operation of the British War Office, which Major Hahn was successful in bringing about.

Gentlemen, I am sorry this statement has been so extended, but the above facts I regard as the essential points before your committee. In other respects, I have nothing to add to, or subtract from, the evidence which I gave before the royal commission.

SOME HON. MEMBERS: Hear hear.

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Mr. GREEN: It is ten minutes to one o'clock now and I suggest that we adjourn until this afternoon and that in the meantime copies of the minister's statement be run off and made available to us.

The WITNESS: In regard to the question raised by Mr. Brooks with respect to the amount of duty paid on these guns, I have just had a statement handed to me which indicates that machine guns and parts thereof are exempt from customs duty effective from January 1, 1939. Prior to that the rate of duty was 5 per cent. I think, Mr. Brooks, you thought it was much higher.

Mr. BROOKS: Yes, and you thought so also.

The WITNESS: This statement has just been given to me from the customs branch of the Department of National Revenue.

By Mr. Brooks:

Q. The payments you say you made with respect to the two guns purchased, they were just for the gun itself?—A. And the tripods.

Q. What was the figure you gave as the cost to the department of those two guns?—A. It was \$1,586.64.

Q. Then, with respect to the guns which you received from the war department, did they have tripods and all the necessary parts; would that include the tripods as well as the guns?—A. Yes.

Q. And the tripods I think ran around \$100?—A. Probably my deputy minister who is sitting back there could answer that better than I could.

General LAFLECHE: The estimated cost of the tripods is \$100, but the cost is not known yet.

By Mr. Homuth:

Q. These guns that came in, were these guns made in Great Britain or did you get them from Czecho-Slovakia?—A. My understanding is that we got them in Czecho-Slovakia. I think the war office got them for us; isn't that the fact, General LaFleche?

General LAFLECHE: Yes, sir, it is.

Now as to the other point raised by the commissioner—the substance of the contract.

The true test of this is to be found in the results produced by the contract. I do not think there is any contract on record in the whole history of our Dominion under which the results being secured are more satisfactory than those which are being produced as the terms of this contract are being fulfilled.

As a result of this contract, Canada will have her requirements of Bren guns for Canadian defence as determined by the General Staff at prices which are actually less than cost. This arises from the fact that the war office is paying one-third of the cost of the machinery which remains the property of the government of Canada.

According to the evidence of a responsible and competent witness (Mr. Gillespie, formerly at Enfield) we will have in Canada a small arms factory capable of producing Bren guns and Enfield rifles in an emergency which is more efficient than the Enfield plant in England. Mr. Gillespie said that the Inglis company was running ahead of the Enfield schedules.

The guns produced for our requirements will be produced at a saving of more than \$1,250,000, over and above what we would have been called to expend for them had we produced the guns without the co-operation of the British War Office, which Major Hahn was successful in bringing about.

The above, gentlemen, I regard as the essential points before your committee. In other respects, I have nothing to add to, or subtract from, the evidence I gave before the Royal Commission.

Mr. FACTOR: Could we not go on for ten minutes?

Mr. GREEN: I would suggest that you get the statement run off and then let us see it again at 4 o'clock.

Mr. McGEER: How could you get it run off by 4 o'clock?

Mr. FACTOR: There is nothing in the minister's statement that you are not aware of, now it has been read. You are not taken by surprise.

The CHAIRMAN: I do not know how it is going to be possible to get that statement run off.

Mr. McPHEE: Let us proceed.

The CHAIRMAN: We could have copies of the statement before each member by 4 o'clock.

Mr. GREEN: That would help a great deal.

Mr. McGEER: Are you sure about that? We do not want to delay unnecessarily.

The CHAIRMAN: We will do that. We will adjourn now until 4 o'clock, and have a copy of the minister's statement for each member of the committee at 4 o'clock.

The committee adjourned at 12.50 to meet at 4 p.m.

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, will you come to order now? I believe every member of the committee has a copy of the minister's report, so we shall be able to proceed.

Hon. IAN A. MACKENZIE, recalled.

By Mr. Green:

Q. Mr. Minister, the contract with the Inglis Company was made by yourself acting for the government as minister of the department?—A. Yes, I was naturally responsible for the contract.

Q. You are named?—A. I am the contracting party, yes.

Q. Did you read this contract before it was executed?—A. Yes.

Q. You are a duly qualified lawyer yourself; did you study it at all?—A. Pardon me?

Q. Did you study the contract at all?—A. In a general way. I relied very largely upon the advice I received, as I said before the Davis Commission, from my office. I knew it had been very carefully scrutinized by the interdepartmental committee.

Q. It is a new departure in the way of a defence department contract in many aspects?—A. Yes, absolutely.

Q. And one of the most important contracts that has been negotiated by the defence department for many years?—A. Yes, quite correct.

Mr. BERCOVITCH: Also one of the best.

Mr. GREEN: That is your opinion.

Mr. McPHEE: It is universal.

Mr. MACNEIL: Not quite.

The CHAIRMAN: Order, gentlemen.

The WITNESS: Mr. Green, may I amplify my answer to your question? Although this was definitely the most important contract, the same principle had been applied before this contract was executed by the department. For instance, take the buoy contract in Vancouver. That was submitted—I think you have evidence of this on your record—to the Deputy Minister of Justice in regard to the general principle.

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By Mr. Green:

Q. It was similar in type to certain aeroplane contracts?—A. Yes, that is correct.

Q. Did you consider under the contract that Major Hahn and his associates were free to sell their personal shares without the consent of the minister or the government, or did you consider otherwise?—A. I was informed at the time that our committee—I think it was Mr. Fraser Elliott, personally,—had inserted a special clause in the contract to safeguard the situation as far as possible with reference to the sale of shares. I was informed further that that was not in the British contract; it was specially put in ours by our own officers.

Q. If I might read that paragraph which is on page 2 of the contract. Have you the contract there?—A. Yes.

Q. "Provided further, that notwithstanding the provisions of anything herein contained, the said licence shall be subject to cancellation if in the course of the period thereof the party of the second part should sell shares, stocks, bonds, debentures, notes, or other like securities to the public, directly or indirectly, or through the medium of other companies the proceeds of which are not directly applied to the business of the party of the second part and there remain applicable for use in the carrying on of said party's business, then the licence shall cease unless before the issue of such security instruments the consent to the issue thereof has first been secured from the party of the first part." Did you study that before the contract was signed?—A. In a general way only.

Q. Because Major Hahn the other day explained the situation with regard to the shares of the Inglis Company and said that the whole million and a half dollars' worth of shares, based on their par value, had been actually issued to himself and his associates, and he very definitely took the position that he was quite at liberty to sell his shares and that his associates were quite at liberty to sell their shares without any interference at all from the government.

Mr. FACTOR: That was his own opinion.

Mr. GREEN: He said he had had the same opinion from his lawyers. And Mr. Fraser Elliott, when he was before us, while he did suggest that there might be restrictions in that paragraph on Hahn or his associates selling their shares, he was very, very definite about it. I would like to know the attitude of the department.

Mr. BERCOVITCH: Let us get it clear. Mr. Fraser Elliott was not indefinite at all about all shares that were in the treasury of the company after the contract was signed, and he was not even indefinite, from my point of view, as to the shares that had been allotted before the contract was signed. I think he made a distinction between the two.

Mr. GREEN: It is clear that there are no shares in the treasury; that they have all been allotted—

By Mr. Brooks:

Q. As a matter of fact, Mr. Mackenzie, do you know how many shares there were in the treasury after the contract was made?—A. No, Mr. Brooks, except in so far as I read the evidence taken before the commission.

Q. As far as this clause is concerned, if it applies only to those that were in the treasury, you do not know whether it would have any effect or not?—A. I would not be specific about that except that a clause was specifically inserted there to protect the public interest. If that has been evaded it would be the duty of the department to take action.

Q. As a matter of fact, some shares have been sold?—A. Yes.

Q. You know that?—A. Yes; that came out in the evidence.

Q. Has the department made any effort to find out whether the money that was received was applied to the contractor or not?—A. That was my opinion. I think at the time the royal commission was taking evidence action was taken by the government counsel in that regard. That is my recollection.

Q. But you know of nothing that has been done?—A. I would not be specific about that, but that is my recollection.

Q. But your department has made no other effort?—A. I do not think so. Government counsel took action.

Q. This is a question that was asked Mr. Hahn. It will be found at page 503:

By Mr. Green:

Q. You said that is correct? (That is with reference to the shares.)
—A. That is correct. We capitalized the company on what we considered it to be worth, based only on what we considered the net worth of the physical assets as a going concern, plus the cash working capital, and we had 250,000 shares. We figured that the physical assets were worth one and a quarter million, approximately; the cash working capital was worth what it was, \$250,000; and \$1,500,000 divided by 200,000 makes \$6 a share. That is how we worked that out.

Q. And holding those shares with a par value of one and a half million dollars, you and your associates consider that you are entirely at liberty to dispose of them or do with them what you wish?—A. We think we are; and we think they are worth that.

By Mr. Brooks:

Q. That is the opinion of the commissioner as well?—A. Yes.

Q. And also, I think, of the accountant who went over the thing.
You, yourself, Major Hahn, have put how much cash into it to date?
—A. To date I have put in \$207,490.28.

Major Hahn expressed the opinion that he and his associates could sell treasury shares and subscription shares. The treasury shares, I think, amounted to fifty-eight thousand and some odd.—A. You mean to the public?

Q. Yes. The subscription shares amounted to 191,600 odd. There was none of these in the treasury after the contract was made, and it was Mr. Hahn's opinion that he and his associates could sell all of those shares to the public?—A. That is certainly not my opinion. I think it was Mr. Fraser Elliott's opinion also.

Mr. FACTOR: Mr. Chairman, may I direct your attention to Mr. Elliott's evidence on page 201. Mr. Elliott states the position very clearly there so far as the selling of stock is concerned:

The intention was, so far as it was possible, to bind third parties that were not signatories to this contract, to insert in that clause a condition that the contractor, the John Inglis company, would bind itself that if third parties holding its stock did sell that stock, then upon that event, there also would be breach of this contract.

At the bottom of page 201, Mr. Elliott clearly expresses the opinion that he would consider it a breach of the contract if any of these shares were sold without the consent of the minister.

By Mr. Brooks:

Q. Well, there has been a sale of shares, Mr. Minister, and does your department consider that there has been a breach of this contract?—A. My understanding is this—of course, it is largely a legal problem—there was a

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sale of shares as amongst the parties privately. I would say this without any hesitation, if there had been a sale of shares to the public without the consent of the department there would be a definite evasion of the contract which would lead to cancellation of the contract.

Q. Did the department give its consent to the shares that were sold after the contract was signed?—A. No.

Q. They know that there were shares sold?—A. I understand there were shares sold privately.

Q. If a few shares could be sold could not all the shares be sold?—A. If they had been sold without the consent of the department that would naturally lead the department to take action.

Q. Do you not think the department should make some effort to find out about the sale of these shares?

Mr. BERCOVITCH: The department has not any occasion as no shares were sold.

Mr. BROOKS: It is on public record. Surely the department has the same opportunity of finding these matters out.

Mr. BERCOVITCH: Where is the record that shares were sold?

Mr. BROOKS: On page 2681 of volume 20.

Mr. McGEER: Yes, but all the proceeds of those shares went into the working capital of the company.

Mr. BROOKS: There is no evidence to that effect.

Mr. MACNEIL: There is no evidence to that effect.

Mr. BROOKS: There is a long list of those who obtained shares. There are a number of dates indicated there at the bottom of the page—1st June, 1938, 3rd June, 7th June, 10th June, 15th June, 16th June, 21st June, 15th July, 27th July, 29th July, 4th August, 24th August, 26th August, 3rd September and 9th September.

Mr. MACNEIL: In what year?

Mr. BROOKS: 1938. I haven't the page of the evidence here, but Major Hahn stated definitely twice in this committee that he had received legal advice and that it was his opinion that these shares could be sold and there was no breach of contract.

Mr. BERCOVITCH: 'All of that was money that went into the organization of the company and was used for the business of the company, for the purposes of reorganization, so to speak.

Mr. McGEER: Yes, providing working capital.

Mr. BROOKS: There is no evidence of that, and if Mr. Bercovitch has any evidence on that point I think he should present it. If he has evidence on that point I think he should submit it to the committee. As a matter of fact, if that is the case we will have to produce these people who bought shares and find out.

Mr. BERCOVITCH: Well, do that.

By Mr. Green:

Q. I think, perhaps, it can be simplified if you will just refer to that paragraph again. Will you read that paragraph over. I think you will see that the restriction is only on the Inglis company, from issuing shares?—A. Yes.

Q. And that there was no restriction whatever on individual shareholders in the Inglis company transferring their shares—if you would look at that.—A. I have it here.

Mr. McGEER: I would draw your attention to the fact that it says, sales direct or indirect; which includes all manner of transactions, as Mr. Elliott carefully explained.

Mr. GREEN: Yes.

Mr. McGEER: What Mr. Elliott put before this committee is this: that the company would be liable to a cancellation of the contract even though there were indirect sales which were outside of the company and which the company had nothing to do with and could not control. But he put forth, I think, a very sound legal argument that such a contract would be a binding legal contract on the company. This contract does not go, as suggested here, to a mere sale of shares. It does not prohibit sale of shares. It does give to the government the right to cancel the licence if by direct or indirect sales this company's shares are turned into a profiteering enterprise.

Mr. GREEN: Show me where that is. Read that into the record.

Mr. McGEER: It is right in the contract.

Mr. GREEN: Then read the contract. Where is it in the contract?

Mr. McGEER: It is right in the contract.

Mr. GREEN: In what words?

Mr. McGEER: It says if the shares are sold directly or indirectly—

Mr. GREEN: By the company.

Mr. McGEER: Well, indirectly by the company—

Mr. GREEN: Sale by the company without the consent to sell from the government.

Mr. McGEER: It is an indirect sale, as Mr. Elliott pointed out. Mr. Elliott pointed out that this was a group of men who had formed a company and he would consider as he said dealing in shares by any of these men who were of the group that formed the company would constitute an indirect sale of shares by the company.

Mr. GREEN: I don't think he meant that at all.

Mr. FACTOR: At page 225 he clearly states that.

Mr. McGEER: In any event, Mr. Chairman, we went over the interpretation of that clause for days, and I think that anybody who reads the clause in the contract at all would clearly see there is no prohibition on the sale of shares. The prohibition is on the sale of shares the proceeds of which do not go into the company; your indirect sales are those which do not go into the company. Mr. Elliott pointed out that if a holding company took charge of these shares or any portion of the shares or if there were a split of the shares or a number of other phases which would have to take place to convert these shares into a profiteering activity.

Mr. GREEN: Not necessarily, the point we are complaining about is that Hahn and his associates can dispose of their own personal shares if they see fit.

The WITNESS: Might I interject one word? I am just giving my own personal opinion which might not be very valuable, but there were three phases in regard to this particular clause. In the first place it was drawn up with a view to protecting the public interest. In the second place there were a certain number of shares which I understand were used for the purpose of obtaining working capital for the company. In the third place there is quite a definite undertaking by the company, after the sale of these shares had been discovered in the department, that there will be no further sale of these shares. That is in evidence before the Royal Commission.

By Mr. Green:

Q. You mean, sale of shares by the company?—A. I think so. You might look up the definite evidence. You will find in the record before the Davis Commission the statement Mr. Ralston made with respect to indirect sale of stock by the company. I think you will find that he states that an undertaking or guarantee had been given by the company.

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Q. We take the stand that the undertaking given by the company is of absolutely no effect on Hahn, and Major Hahn told us just last week that he had a certain number of shares and that he was of the opinion that he was at perfect liberty to sell them or deal with them as he saw fit. I think he gave an opinion to that effect, and there is nothing in the evidence to show that such is not actually the case.

Mr. BROOKS: May I just read what Major Hahn says at page 452 of the evidence:—

By Mr. Bercovitch:

Q. I think under the contract you have to have the consent of the Department of National Defence or of the government, rather, before you can sell your stock?—A. Not our own personal stock.

Q. Not your own stock, but the company's stock?—A. Well, the company has no stock to sell. We committed for all the company's stock.

Q. Well, of course, whether your own personal stock can be sold or not is a debatable point which Mr. Elliott discussed here at some length.

It is all personal stock. And then he continues:

Mr. GREEN: Mr. Hahn is of the opinion that he can sell.

Mr. BERCOVITCH: Whether his opinion is that or not, the point is whether it is legal or not under the contract, which is a matter of interpretation.

The WITNESS: Our opinion is that the question of personal stock was never raised at all at any time. The question of that stock restriction was raised on the basis of capitalizing the contract or setting up—that is all in the evidence before the commissioner—the question of possibly splitting the stock or taking the contract, and in addition to the 250,000 shares we have, adding more stock; in some way capitalizing the contract and issuing stock on the basis of that. It could not possibly control the stock we committed for and bought and paid for long before we ever heard of the contract.

By Mr. Bercovitch:

Q. That is your understanding, but you have not had any legal opinion on that?—A. Yes; we have had plenty of legal opinion.

By Mr. Brooks:

Q. Have you sold any of this stock since this contract was signed?—A. I have not sold any of my stock. I understand Mr. Cameron sold some of his.

Q. Do you know at what price he sold?—A. He sold, I think, between \$6.50 or \$7 a share that was authorized by the Ontario Securities Commission, I understand.

Now, that explains Major Hahn's attitude in the whole matter. The stock is owned personally by him and his associates and they are of the opinion that they can sell and they have sold. They have sold at the par value, they have sold for \$7.50. As far as that clause of the contract is concerned it is having no effect at all.

Mr. MCPHEE: Look at Major Hahn's evidence at page 443:

It has been suggested that because some of the stock that was bought and paid for by the original shareholders was resold by them at \$6 and \$7 per share, and that this has placed upon all vendor stock a fictitious value. There is absolutely no foundation for such a reckless

suggestion. I, myself, have bought and paid for 34,913 shares at \$6 per share. I have not sold any of my treasury or vendor shares, nor have I offered any for sale, and the shares have a par value of \$6 on the basis of the plant, as a going concern, and certainly not upon any basis of government contracts which will only show an earning of 28½ cents per share per annum for a period of 5½ years.

Mr. McGEER: Of course, we did discuss this and other phases of the thing, its application to other companies. For instance, of the five quoted as possible companies that should have received this contract, or could have entered into the contract that it would have no bearing on their shares. Mr. Elliott in dealing with that phase of the thing said such a contract would be both impractical and impossible. While this company has a contract for the building of some Bren guns it has a very substantial commercial activity as well with which this contract has nothing to do.

Mr. HOMUTH: You now take the stand that such a thing should not only apply but should be allowed to happen, yet you have been arguing all along that under this clause of the contract it could not happen.

Mr. McGEER: Oh no, what we argue is that this clause is an extra clause put in here to prevent this company taking a contract with the Department of National Defence and recapitalizing and profiteering through a manipulation of share certificates in the open market.

Mr. GREEN: That is another point. That is a different point. Do you go so far as to say that Major Hahn can't sell his personal shares?

Mr. McGEER: I would say that any action of Major Hahn under this contract, or any other shareholder of this company could be found to be—the utilization of the contract with the Department of National Defence to convert shares into profits would lay the company open to cancellation of its licence; and I point out that there is no more protection that could ever be inserted in a contract that would have more practical value than that which is in this contract. Now, to carry it further than it has gone would be to make the provision for protection absurd and ridiculous.

Mr. GREEN: You see, Mr. Minister, I asked Mr. Elliott this question at page 181 of the proceedings, right at the bottom of the page:

Q. Yes, but your section does not do that; because it does not expressly prohibit shareholders from selling their own stock. There is nothing about that at all.—A. No. The contractor signs the document in which he says, I consent that this document is contingent upon my shareholders not selling their shares.

Q. Where does it say that?—A. In that paragraph; 'through the medium of other companies the proceeds of which are not directly applied to the business of the party of the second part and there remain applicable for use.' Now then, the company sells directly or indirectly its shares through the medium of any other person.

Q. The controlling words are, 'party of the second part should sell either directly or indirectly;' well, the shareholder surely cannot be governed by that wording?—A. I admit there is a great deal in what you say. Whether it really binds the shareholder, I am not sure.

That was Mr. Elliott's position. You say that the department has taken no steps at all to interfere with the shareholders disposing of their shares.

The WITNESS: Yes. As soon as it was learned that some of the shares were improperly disposed of action was taken by government counsel, and an undertaking was received that no more shares would be disposed of. However, proceeding along the line of your argument, I admit that it might be a matter for

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judicial interpretation. But the company could not possibly take any action with respect to their shares at the present time that would offend public interest because we would have the right of expropriation, if necessary, in regard to the whole contract. I see your point very clearly.

Mr. GREEN: What we are worried about is their disposing of those shares for full market value at a profit of \$6 a share.

Mr. BROOKS: Major Hahn has 107,964 vendor shares and 34,915 treasury shares which he says he purchased at a par value of \$6 a share.

Mr. GREEN: That is a total value in those shares which Major Hahn holds of \$867,274. He told us that he had only put in \$207,000. He is in a position to take a profit by way of selling these shares of four times what he put in.

Mr. BERCOVITCH: That is merely a book entry, that is all that is, and Mr. Fraser Elliott explained that in his statement.

Mr. FACTOR: Would you refer to page 225 where Mr. Elliott deals with that situation—about the middle of the page. Referring to the sales and the position that Mr. Green now takes, he says as follows:—

Then if they proceeded to sell the shares of that company to the public and thereby brought home through that medium large profits to the group of shareholders who did this thing I described, collectively, then I would say that they would stand in great jeopardy of having infringed the second part of this paragraph, particularly in relation to the words which state that if the John Inglis company—I am putting the name in—should sell shares directly or indirectly, or through the medium of other companies, and the proceeds are not applied, as in my example they would not be applied, and were not applied to the business of the John Inglis company, the contractor, then the licence shall cease.

Mr. BROOKS: It says if the John Inglis company should sell. It is not the John Inglis company which is selling. It is Hahn and his associates.

Mr. FACTOR: Not at all. He says if Hahn and other shareholders put their shares en bloc and attempt to sell them.

Mr. BROOKS: No; you are not reading that.

Mr. FACTOR: I am reading from that. Look at page 225. It says:—

Now, presume that Hahn and the other shareholders put their shares on en bloc. . . .

Mr. HOMUTH: Suppose they did not put them en bloc. Suppose they sold individually.

Mr. FACTOR: That would be held to be a breach.

Mr. HOMUTH: No.

Mr. FACTOR: It says so.

By Mr. Green:

Q. At any rate, Mr. MacKenzie, the only possible protection that the country has against these men making a very large profit by selling their shares is this paragraph on page 2 of the contract.—A. That was put in there for that purpose.

Q. That is the only possible means we have of preventing that?

Mr. MCPHEE: And the Ontario Securities Commission.

Mr. HOMUTH: Just a minute. Mr. McPhee brings in the question of the Ontario Securities Commission.

Mr. MCPHEE: They cannot sell stock without the authority of the Ontario Securities Commission.

Mr. HOMUTH: The matter came up in the Ontario house during the last session and they said they would have nothing to do with interfering with the sale of the shares of the John Inglis company. The government definitely made that statement.

Mr. MCPHEE: You cannot sell any stock in the province of Ontario without the authority of the Ontario Securities Commission.

Mr. HOMUTH: They definitely stated at the last session of the house that they would not interfere with the sale of stock of the John Inglis company.

Mr. MCPHEE: There is no evidence of that.

By Mr. Green:

Q. I will repeat my question, Mr. Mackenzie, which was that the only possible way the government have of preventing the making of that very large profit by selling shares is this paragraph on page 2 of the contract, as to the effect of which there is some difference of opinion?—A. I would not exactly agree with that, because the government can also expropriate if they are breaking in any way the spirit of the contract. But I would say this in answer—

Q. What do you mean by “if they are breaking the spirit of the contract?” You mean if they are breaking the contract?—A. Breaking the contract. But the answer in reply to your question is this: this paragraph was specifically inserted by a trained lawyer for the protection of the public interests; and if there are any doubts at all, if there is any attempt to evade the spirit of this paragraph, as minister I would certainly take action.

Q. You are the minister now; and these people have sold some of the shares at \$7.50.—A. Do you think that private sales amongst themselves was a breach of this section?

Mr. FACTOR: There were very few.

Mr. BROOKS: It was not private sale amongst themselves. They sold to 30 or 40 different people.

The WITNESS: It was all done privately, was it not?

Mr. GREEN: No, through brokers to the public. They sold these shares at \$7.50 a share.

The WITNESS: Is there any evidence of that?

Mr. MCPHEE: Prior to this contract.

Mr. MACNEIL: After the contract.

Mr. BROOKS: They sold 3,855 shares.

Mr. MCPHEE: Prior to the contract.

Mr. MACNEIL: Give us the dates.

Mr. BROOKS: Yes.

By Mr. Ralston:

Q. There are 3,855 shares. The names are given of all the purchasers and the date of sale, the number of shares, and the price per share.

The COMMISSIONER: I would like to have those read.

Mr. ROSS: Very well, they are as follows:—

Then follows the date of sale, the purchaser, the number of shares, and the price per share. There is on the 1st of June, 1938, R. V. Le Sueur, 200 shares at \$7.50; A. Wilson, 100 shares at \$7.50; Lynwood Securities Ltd., 100 shares at \$7.50; W. E. Pointon, 125 shares at \$7.50; Mrs. C. R. B. Stokes, 125 shares at \$7.50; J. E. Hutchison, 50 shares at \$7.50.

Mr. BERCOVITCH: What are the dates?

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Mr. BROOKS: Those are on the 1st of June, 1938. On the 3rd of June, 1938, G. W. Wildblood, 50 shares at \$7.50; Mrs. E. R. North, 100 shares at \$7.50; Miss L. A. Henderson, 100 shares at \$7.50; Miss Myrtle Brown, 100 shares at \$7.50.

The CHAIRMAN: What is the page or what is the exhibit you are reading from; Mr. Brooks?

Mr. BROOKS: This is from pages 2681 and 2682 of the evidence taken before the commissioner. On the 7th of June, 1938, W. T. Hibbett, 10 shares at \$7.50. There is a great long list here, Mr. Chairman. On the 10th of June, 1938, Canadian and Foreign Securities, Ltd., 250 shares at \$7.50; J. D. Strachan, 100 shares at \$7.50; G. Yager, 15 shares at \$7.50; H. A. Hall, 25 shares at \$7.50; Mrs. E. Alexander, 10 shares at \$7.50. On the 15th of June, 1938, Dr. H. A. Pelton, 100 shares at \$7.50. On the 16th of June, 1938, J. W. Bryson, 25 shares at \$7.50; C. V. Shaw, 25 shares at \$7.50; J. H. Cavanagh, 50 shares at \$7.50; Earl Webber, 10 shares at \$7.50.

Mr. BERCOVITCH: Who were they sold by?

Mr. FACTOR: Cameron and Pointon.

Mr. McGEER: Do we need that list? You can file that list.

Mr. BROOKS: In any event, the last sale was made on the 9th of September, 1938, to E. H. Pooler & Co., for \$6.00. There is a long list of them here.

Mr. McGEER: I say file them.

Mr. BROOKS: As Mr. McGeer says, they can be placed on record.

Mr. McGEER: It is on record now.

Mr. BROOKS: It shows that they were not selling amongst themselves. They were selling to the public.

Mr. McGEER: No. You missed the point. These shares were treasury shares for which these men paid, I think, \$6.00 into the company.

Mr. FACTOR: Cash into the company.

Mr. McGEER: This was reimbursement for that. If your point is that, because they sold these shares to raise money for the working capital, this is a ground for breach of the contract or consideration that the contract is broken and for cancellation of this contract now, that is another thing.

Mr. BROOKS: Our point is that they had 250,000 shares, and that these shares were all issued personally to Hahn and his associates.

Mr. FACTOR: These were not shares of Hahn.

Mr. BROOKS: They were owned personally, held by his associates; and one of Hahn's associates sold some of his shares on the market. Hahn himself considers that he can sell any amount of his shares; and as far as this clause is concerned, it in no way protects the public from them selling shares of the company that are owned personally.

Mr. McGEER: No. What you are doing is ignoring the terms of the contract which provide that on any sale of shares, the proceeds of which do not go into the company the contract may be cancelled. As a matter of fact, all these shares were issued by the company in consideration of assets which were turned over to the John Inglis Company. Those assets were turned into the company at \$1,300,000. What you are assuming or trying to assume is that the only asset that this company has is this Bren Machine Gun contract. If you can establish that the proceeds of these shares issued by the company have not gone into the company, then you have got a ground for cancellation. To do that, you would have to prove that the transfer of the assets taken over by these men and their companies and turned into the company have not the value of the consideration recorded in the issue of the shares.

Mr. BROOKS: You are mistaken, Mr. McGeer.

Mr. McGEER: What you are trying to do is—

Mr. GREEN: We have said what we meant to say. If you thought we were trying to say something else, that is your misfortune. But we have said what we wanted to say, and if you put a different interpretation on that, it is up to you. We are questioning the minister to-day. We are not trying to convince you about it. I know that would be hopeless.

Mr. McGEER: I think probably some of your ideas would be hopeless to convince anybody with a knowledge of the law of contract. The point I want to get at is, that if you are making the point that you want this contract cancelled now—

Mr. BROOKS: No. We are not making any such point at all. The point we are making is that Hahn has shares which are worth over \$800,000 and he paid some \$200,000, odd for them. We agree with Major Hahn that he and his associates can sell those shares, and that section of this contract will not prohibit him in any way.

Mr. McGEER: Will you suggest that if this contract had been let to the Canada Steel Company or the Canada Car Company, as was suggested by the leader of the opposition on the floor of the house, you would put in a clause preventing the dealing in shares among the public?

Mr. HOMUTH: What we suggest is this: You say there is a certain clause here which will do a certain thing. And it will not do that.

Mr. McGEER: What we do say is—

Mr. HOMUTH: If the company or the shareholders paid \$6.00 for their stock and paid it into the company and were able to play with the stock in the market, there is nothing in this clause—and this is something we have contended right along—to prevent them from passing that stock from one to the other, playing with it on the market, working it up to \$10.00, \$12.00, or \$15.00; or as was the general talk on the street, this was a stock which would some day be worth \$20.00 a share. They could play with it and make a maximum profit by means of manipulation of these shares; and there is nothing in that clause which will prevent it.

The WITNESS: That is not true.

By Mr. Green:

Q. Let us get back to the question. Mr. Brooks has read a report of different sales of shares by individual shareholders at \$7.50 a share, all of which sales were made months after the contract was signed, and your department has known about that for months. Has any step whatever been taken to remedy that situation or to question the right to sell those shares or anything along that line?—A. My recollection is that instructions were given during the time of the former investigation that no further disposal of shares could be effected. I should like to get specific evidence for you on that point. I think you will find that in the record of the other investigation.

By Mr. MacNeil:

Q. That undertaking was secured from the company at that time. Why could it not be incorporated in a letter—in the same way as the over-riding profit was incorporated in a letter—and annexed to the contract?—A. I do not see why it could not. In regard to the point raised by Mr. Green and Mr. Brooks, I think myself—although there may be some point in their argument that this section may not be as strong as it was intended to be—that the company cannot possibly function without complete control and co-operation with the Department of National Defence. They could not go on.

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By Mr. Green:

Q. If you can get Major Hahn to give you an undertaking that none of his personal shares will be transferred, then the difficulty would be overcome. We would also need an undertaking from the other shareholders. He thinks he is at perfect liberty to sell his shares as and when he sees fit.

Mr. BERCOVITCH: What he thinks does not matter a great deal.

Mr. GREEN: It does if he is going to do it.

Mr. BERCOVITCH: It is illegal. If he happens to have an illegal thought, the department is not going to be bound by that; that is all. I am not very much concerned with Mr. Hahn's legal opinion or even the legal opinion that he obtained from his counsel, however good they may be.

The WITNESS: You may rest assured if there is any attempt at all to evade the spirit of this section—if in your legal opinion this section is not strong enough to effect what it was designed to effect, if there is any attempt to evade the spirit of it, the department will take action.

By Mr. Green:

Q. Major Hahn has told us quite openly, without any hesitation, "It is none of the government's business whether I sell these shares or not. They are my shares and there is nothing in the contract to prevent my selling them."—A. Major Hahn cannot carry out the contract without the complete co-operation of the Department of National Defence because all the machinery, as you know, is being supplied from week to week.

Q. The contract is not with Hahn personally; it is with the Inglis company. If the Inglis company carried out the terms of the contract— —A. I doubt very much, for the purpose of sales, if you can separate the two; I mean, as a practical issue. If there was an attempt to sell, an attempt to dispose of shares and disposal of them by individuals to a substantial degree, as Mr. Elliott said in the evidence, I think that could be construed as a breach of the spirit of the section.

Q. The shares are already issued to individuals. They are no longer held by the company. They are out and issued to individuals and these individuals consider they are at liberty to do as they wish with them.—A. Are there not very few of these outside of Hahn himself? You must have the figures there.

Mr. McGEER: Three thousand went out to raise the working capital.

The WITNESS: The present status of the shares? Are there not very few shares of individuals outside Hahn himself?

Mr. BROOKS: About five, the two Plaxtons, and Cameron, Pointon & Merritt, and these shares here that were sold to the public. I would say about 30.

Mr. GREEN: I am afraid we cannot agree on the interpretation of this section.

The WITNESS: I am afraid not.

Mr. BERCOVITCH: Mr. Hahn could not agree with Mr. Fraser Elliott.

Mr. GREEN: Mr. Fraser Elliott was pretty weak-kneed about it.

Mr. BERCOVITCH: Mr. Fraser Elliott cited an authority.

Mr. GREEN: He told me at page 182, "I admit there is a great deal in what you say. Whether it really binds the shareholder, I am not sure."

Mr. BERCOVITCH: He came back and brought an authority with him.

Mr. McGEER: It does not bind the shareholders, but what he did say was this: it gives the government the right to cancel. That was another phase altogether, and he brought in an authority and it is on the record.

Mr. HOMUTH: Distribution—

Mr. McGEER: He is dealing with two things. Even if a shareholder did go out and sell, there is no way of preventing the shareholder doing that; but if that takes place, as Mr. Fraser Elliott told us, that would constitute a breach of the contract, and the contract could be cancelled by way of cancelling the licence. He made that perfectly clear.

Mr. DOUGLAS: How can you cancel the licence when there is nothing in the contract to prevent shareholders—

Mr. BERCOVITCH: Page 224 of Mr. Fraser Elliott's evidence.

Mr. DOUGLAS: You would have a law suit on your hands.

Mr. BERCOVITCH:

Q. Your evidence, if I might refer to it briefly, comes to a point I think at page 961, which reads as follows:—

Q. Whatever your thoughts were that night, they must be plain to you now that that clause does not affect or attempt to affect the sale of the then issued 220,000 shares?—A. Not the 220,000, no, but it would affect, I think, a split of them and issuing three for one or something like that. That is perhaps a question of interpretation.

The shares that Cameron sold were of the 220,000 that had been issued; that is correct?—A. That is right.

Q. So that nothing has happened since which could be interpreted as a breach of the contract?—A. Not to my knowledge.

Q. And there was no breach of the contract then?—A. I do not think so, but I should like to take up your opening remarks in that series of facts. We did at the last meeting drift considerably away from the terms of the contract under discussion. I do not think it was entirely your fault, as you suggested; it was the growth from around the table. You asked me at the close if I had read the honourable Mr. Justice Davis' comments when discussing the matter with Mr. Geoffrion, and I said "no". Since then I have read them. I read them at home and we read them again this morning for the committee, and I agree with the statement of the honourable Mr. Justice Davis that that sale was not a breach of the contract. But we are not through if we just stop there.

Q. I quite agree.—A. We must go on and pick up the character of the discussion we had. If I may develop it, it was this: we were away from the contract and we were discussing the capacity—although we did not use that term on the last occasion—of a company or two persons or corporate entities to contract and have a term in their contract which would be sound in law but which would be a breach if some third party did something that the term in the contract said shall not be done, and, if it is done, shall be a breach of the contract.

In connection with the capacity to contract, I have verified it and, if I may, I should like to read into the record a very short paragraph of what Anson states on the matter. I am quoting from Anson, 18th edition, page 322:—

A contract may contain within itself the elements of its own discharge in the form of provisions expressed or implied for its determination in certain circumstances. These circumstances may be the non-fulfilment of a condition precedent, the occurrence of a condition subsequent—that is our case, the probability of our case—or the exercise of an option to determine the contract reserved to one of the parties by its terms.

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Halsbury, 2nd edition, volume 7, page 221, states: .

A condition may depend on an event which is dependent upon the will of one of the parties to the contract, or upon the will of a third person.

These quotations simply support what was, I think, the general view at the last meeting, although it was somewhat confused, namely, that two persons can contract one with the other and have a term in the contract that will cause the contract to be abrogated if a third party does or refrains from doing a certain thing. I think that exhausts the discussion we had apart from the contract.

You are ready to take Hahn's opinion, but at any rate, Mr. Elliott submits an authority for his statement and for his opinion. As far as I am concerned I am prepared to accept it.

Mr. DOUGLAS: Mr. Elliott in his own evidence there said that he did not think the sale of the shares that had been referred to constituted a breach of the contract.

Mr. BERCOVITCH: Yes.

Mr. DOUGLAS: Certainly. That is just the very point.

Mr. BERCOVITCH: We were all satisfied. If that did not constitute a breach of the contract, let us proceed somewhere.

Mr. DOUGLAS: That is exactly what we are saying. This clause does not cover that exigency.

Mr. BERCOVITCH: Are you satisfied the shares sold, as brought out by Mr. Brooks, did not constitute a breach of the contract?

Mr. DOUGLAS: You are trying to have it both ways. You cannot say this clause covers that particular case and at the same time say that if they proceed to do this you are going to cancel the contract.

Mr. BERCOVITCH: What I understood Mr. Elliott to say is this. He said the particular shares that were referred to by Mr. Brooks a few moments ago, and of which the commission had full knowledge, did not constitute a breach of the contract, and therefore you cannot expect the ministry to take action basing this action on a breach of contract which has not occurred. That is my statement, no more than that.

Mr. BROOKS: Well, if the sale of these shares did not constitute a breach of the contract, then a sale of similar shares would not constitute a breach of the contract, and Hahn and his associates own practically all the shares.

Mr. BERCOVITCH: No. If we have another example of the sale of shares and we know the owners of the shares, and if it took place since the contract was signed, if it is required we can discuss that; but for the purpose of the present discussion I think we can take the list of the sales that you have read out a moment ago and apply the particular facts to the opinion given by Mr. Elliott, and I think that that ought to end the discussion.

Mr. HOMUTH: Mr. Chairman, there was some question as to the distribution of the stock. The Minister said he thought Hahn owned most of it. According to the auditor's report which was made before Mr. Justice Davis, J. E. Hahn held 107,964 shares, Cameron, Pointon & Merritt, 39,256 shares, Herbert Plaxton 19,628 shares, Gordon Plaxton 9,814, which makes a total of 176,662 shares. But in addition 15,000 shares are held in reserve for J. E. Hahn 9,617, E. T. Pointon, 3,500, for Herbert Plaxton and Gordon Plaxton, 2,333 shares. That is, 15,000 shares added to the 176,662 shares, make a total of 191,662 of vendors shares.

Mr. BERCOVITCH: That was all known.

Mr. HOMUTH: They could all be sold.

Mr. GREEN: On the page you read from Mr. Elliott said that these shares could be sold without any interference from the government, and these shares, I understand, were actually issued before the Bren gun contract was signed, apparently just the same as all Hahn's shares were issued. How can you put Hahn's shares in a different class from those 220,000 that were sold ?

Mr. BERCOVITCH: I do not know. I am not attempting to put them in any class at all. I am taking the facts as they are and nothing else.

Mr. McGEER: I do not think you can expect the interdepartmental committee to do the impossible. Suppose you suggest that the Steel Car Company, or the Steel Company of Canada, or the Dominion Bridge Company, or the Canadian Car and Foundry Company, or the National Steel Company, or any of these companies had made a condition that if they entered into a contract to produce Bren guns they would agree to a cancellation of the licence if they were found to be dealing in their shares. I put that proposition before Mr. Elliott, and of course he said that would be absurd and ridiculous; it would be impossible. Now, is it the intention of this examination to show that once shares are sold by this company and the proceeds of the sales go into the company, then there could be no dealing in the stock of the company?

Mr. GREEN: What we do not like to have is you maintaining that there is some restriction on the sale of these shares when, in fact, there is none as far as we can see. In other words, Hahn is free to sell his shares and make all the profit he can make. If that fact is admitted, then there is no need to argue.

Mr. McGEER: What I understood the Minister to tell the committee is this: this clause is designed to prevent profiteering in the shares of stock as a result of this contract. If there is that sort of profiteering and there is not sufficient power even in this clause of the contract to stop it, then the Department of National Defence are prepared to take the necessary steps through their powers of expropriation.

Mr. DOUGLAS: And have a law suit on their hands.

Mr. HOMUTH: They can only do that when there is a breach of the contract.

Mr. McGEER: No, they can expropriate.

The WITNESS: Any time.

Mr. DOUGLAS: You would have a law suit on your hands if you did that.

Mr. HOMUTH: Mr. McGeer has continually pointed out that there was a clause in the contract that would stop the profiteering in shares; but the evidence we have had from various witnesses is to the effect that it has not; it actually happened. They can sell all, and if you admit that, very well, there will be no use arguing any more about it. It was argued here that there was no such opportunity at all. Now the evidence we have here is that there is.

Mr. GOLDING: Mr. Chairman—

Mr. BERCOVITCH: May I, Mr. Chairman, read another few lines from Mr. Fraser Elliott's evidence at page 225? The evidence is as follows:

Q. Yes.—A. Now we come back to the terms of the contract. I opened my discussion on that paragraph by stating that it absolutely fell into two parts. On the first part I think there is general agreement now, namely, that if the company itself issued shares and inflated the shares and issued more without the consent of the minister then there would be a breach. Nothing like that has happened.

Mr. GREEN: No, and we are not talking about that.

Mr. BERCOVITCH: Let me continue, and then we will come to that discussion if you want to.

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Now we come to the second part of the paragraph under discussion and that is, could a third party sell their shares that had already been issued at the time of the signing of this contract and thereby cause a breach of this contract? That means the action of a third party to which Anson referred. I made the statement that the second part is subject to certainly more than one possible interpretation. Which one is right would depend upon the circumstances which happened and in respect of which the second part of the paragraph would be interpreted. We have touched this morning upon one set of circumstances that happened, namely, a shareholder did in fact sell his shares. Now, did that amount to breach of the contract? The honourable Mr. Justice Davis says no. I agree with that. But let us develop it a little further, because this was where we moved away from the contract and I did give the opinion, and I repeat it, that there are possible circumstances which though committed by third parties who already had the shares issued to them might amount to a breach of this contract. I would be inclined to the view that it would be a breach, and these are the circumstances that I envisaged at the time of drafting this section: Hahn controlled the shares of this company, that is, he was the majority shareholder. Now, presume that Hahn and the other shareholders put their shares en bloc into another company called the John Inglis Commercial Company Limited, and that company was so organized that it had a great many shares, we will say, at a low par, but in the aggregate a very large sum of money; they were really capitalizing on the goodwill of this contract by transferring it to this new company, the commercial company. Then if they proceeded to sell the shares of that company to the public and thereby brought home throughout that medium large profits to the group of shareholders who did this thing I described, collectively, then I would say that they would stand in great jeopardy of having infringed the second part of this paragraph, particularly in relation to the words which state that if the John Inglis Co.—I am putting the name in—should sell shares directly or indirectly, or through the medium of other companies, and the proceeds are not applied, as in my example they would not be applied, and were not applied to the business of the John Inglis Co., the contractor, then the licence shall cease. Now, you would have to interpret this set of facts that I gave you and say, "Do they not come within the contemplation of the language used in the second part of this paragraph?" I am not going to answer that question; I simply raise it."

Mr. GREEN: In other words, Mr. Elliott would not say himself.

Mr. BERCOVITCH: All right. You are ready to accept Major Hahn's interpretation of the contract but you won't take Mr. Elliott's.

Mr. HOMUTH: Mr. Elliott specifically mentioned the John Inglis Co., not an individual in that.

Mr. BERCOVITCH: Certainly.

By Mr. Green:

Q. Mr. Minister, we simply want to put this position before you that, in our opinion, the contract does not prevent individual shareholders from dealing in their shares?—A. I understand it does prevent them.

Q. When Major Hahn was before us he most emphatically took the same position. He has only invested \$207,000 for which he has shares now with an actual cash value of nearly \$900,000 and so is in a position to make a profit of four times his investment.

Mr. MCPHEE: Provided he can get somebody to buy the stock.

Mr. McGEER: What I think should be clearly understood is that that is quite apart from the Bren gun contract because, Mr. Chairman, Hahn and his associates purchased certain assets; they purchased them at a price; they turned them into a company at another price, but it has nothing to do with the Bren gun contract. What Mr. Elliott did point out to us is that there is another way of stopping profiteering by the capitalization of this contract from a share-selling point of view, and that was the fixing of the total over-riding profit at a known and stated amount.

Mr. GREEN: That does not affect profits from the sale of shares.

Mr. McGEER: I put it to Mr. Elliott in this way: I said, "Can you convert shares in a company whose profit is limited on the Canadian contract to \$267,000 and on the British contract to \$183,000, making a total of \$450,000, into millions of profit?" Well, of course the thing is so palpably absurd that nothing but a partisan mind would ever develop it.

Mr. HOMUTH: There is nothing partisan about it.

Mr. McGEER: How can a promoter of stock go out into the market and sell stock by capitalizing \$450,000 as an asset into millions?

Mr. HOMUTH: Read the prospectus.

Mr. GREEN: Perhaps we could ask the minister some other questions.

By Mr. MacNeil:

Q. Then I take it there would be no objection to further action by the department?—A. Not the slightest, Mr. MacNeil. As a matter of fact, I want to explore that position very much further. If there is any legal doubt at all as to the strength of this particular section there are other ways in which the department can take action.

Q. I suggest it is important with reference to the two hundred and twenty odd thousand shares that were issued. This company might secure an additional order for, say, the Enfield rifles, and might there not be some such undertaking as an annex to the contract to guarantee to the public— —A. We will be glad to explore that further. I must say that the intentions were very honourable in regard to this stock. If there is any legal weakness it can be corrected.

By Mr. Green:

Q. You said this morning that the government decided in 1936 against the policy of manufacturing these guns in dominion arsenals?—A. That is scarcely correct. I think what I said was this, although you may have my exact language there; it was discussed first of all in Defence Council of national defence, and I wrote a letter on the 29th of October, 1936, to the Prime Minister putting the two points of view up to him and asking him to have it discussed in council. When we discussed it in council—I cannot tell you what happened there—the decision generally speaking was that we could not afford the money that would necessarily be entailed in a large program of government-owned arsenals.

Q. In essence the decision was made in 1936, October, 1936?—A. The letter was written in October. I do not know exactly when the decision was made.

Q. That letter was dated— —A. October 29.

Q. 1936. And it was within a few days of that that the cabinet came to this decision?—A. I would presume so.

Q. You also said that the contract to manufacture Bren guns was not of a type on which you could call for open tenders?—A. That was my opinion.

Q. That left you the only alternative of picking out a contractor. Well, now, why did you not invite some other manufacturers in to find out what they could do in the way of manufacturing these guns?—A. That is a very fair

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and reasonable question. The situation is that Hahn himself took the initiative in regard to the whole situation. He came to the department, he saw the guns in the deputy's office and he went to England immediately. Then he asked for further authority through the High Commissioner, on November 9 and 10, 1936, which he received and which he had until he made a report to the minister on the 5th day of December, 1936.

Q. The department had known for at least six months before Hahn came to Ottawa that Bren guns were needed; why did not the department take the initiative instead of waiting for a contractor to drop into the office with a Liberal member of parliament?—A. I suppose we were at that time, as I said this morning, somewhat doubtful about our capacity to produce Bren guns in the dominion of Canada.

By Mr. Bercovitch:

Q. In addition to that you said "I do not think there was money available."—A. There was none.

By Mr. Green:

Q. No, but if the position was such that some firm had to be selected to manufacture these guns, why did not your department go out and get in touch with different firms in Canada who were in a similar business?—A. Because we had no money available at that time.

By Mr. Brooks:

Q. You did not ask for money. The matter of Bren guns was not brought before parliament at all, and there was no estimate or anything asked for Bren guns. If your department knew that Bren guns were necessary why did they not ask parliament for a vote of money?—A. There are lots of things that do not come before parliament.

Q. I know, but this Bren gun matter is a very important matter.—A. Mr. Brooks, there are lots of things that I have been wanting very badly for the last three years that never come before parliament.

Q. I think it is a good idea to indicate to the people what you want, and the best medium is parliament.—A. Yes, but you cannot get an estimate before parliament until it is passed in the first place.

By Mr. MacInnis:

Q. How much money would be required to bring the manufacture of Bren guns in a government-owned plant to the position in which the Bren gun now is in the Inglis plant?—A. I scarcely think I would be competent, Mr. MacInnis, to reply to that question. There is, first of all, the initial capital expense; then there would be the production costs and the maintenance costs, and then your necessities are limited to a certain number.

Q. Could we possibly get it in this way—I am sorry to interrupt—by ascertaining the total amount of capital invested in the John Inglis company now and ascertaining what part of that has been invested by the company and what part has been invested by the government?—A. My recollection in regard to machinery is that the estimate was about one million and a half. You have all these facts before you here.

By Mr. Green:

Q. This raises a new point and I had not finished, if Mr. MacInnis does not mind.

MR. MACINNIS: Oh, no. I thought that was what you were after.

By Mr. Green:

Q. Mr. Minister, you had had an investigation made of about a thousand or fifteen hundred firms in Canada.—A. Fifteen hundred at this time. At that time it would be just beginning, in 1936.

Q. You must have investigated some firms who were actually in operation in a similar line of business?—A. The reports are in of lots of firms, but I think we just started in 1936. I think we just commenced the industrial survey in 1936. It began in the fall of 1936.

Q. At any rate, your department did not give any other firm or individual in Canada a chance to go into the manufacture of these Bren guns?—A. No, but we did not refuse them.

Q. No, but you did not tell any other firm.—A. We did not approach any other firm in Canada with reference to the Bren gun, not one.

Q. And you really selected Hahn as the contractor?—A. That is a matter of opinion entirely. I say "No," but if you choose to—

Q. He was a selected manufacturer?—A. He was eventually, of course, yes.

Q. On what basis did you select him?—A. We selected him because I think he was selected practically by the British authorities in the first place. The sequence of events is as follows: He saw the gun and he told the deputy minister, who is here now, that he thought he could manufacture these guns in Canada. He went over to England with these letters of introduction and he evidently made a great impression on the Enfield authorities and also on the war office officials. The sequence of events after that is that we were trying to get a decision from the war office whether they would co-operate with us by producing them even in Great Britain or giving us a supplementary order in Canada. And until the 9th day of November, 1937, we did not get any final decision, at which time they told us they wanted to select Hahn.

Q. What was your reason for selecting this man Hahn, who, after all, did not have a plant in operation at all, it was a shut-down plant?—A. Well, the answer to that is, "Why not?" Because I think he will do as good a job as anybody else.

Q. Here is the picture: Hahn comes to Ottawa with a Liberal member—

Mr. MCPHEE: Is there any difference whether it was a Conservative or Liberal member?

Mr. GREEN: He comes to Ottawa with a Liberal member—

The WITNESS: Others have come with Conservative members.

By Mr. Green:

Q. Nobody else is even interviewed or given any opportunity and Hahn is just pushed right through.—A. Mr. Green, I have never made any distinction between political complexions in the House of Commons. If you had come to me asking for a letter of introduction for a Vancouver industrialist you would have got it, provided you recommended him. The same was done to various sides of the House of Commons in various cases.

By Mr. Brooks:

Q. Would the contractor be made a representative of the government?—A. That was a request which came from the High Commissioner himself when they said the jurisdiction that was given him was not sufficient. He would need in this particular to have the powers of agency of the government for a limited time.

By Mr. Green:

Q. It looks as though Major Hahn were like the famous Topsy, he just "grewed" as our Bren gun manufacturer.—A. I think he used tremendous initiative and enterprise; that is my honest judgment.

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By Mr. MacNeil:

Q. When he was granted the privilege to examine the gun in detail in Toronto, did it not occur to the department at that stage that it might be well to provide a similar opportunity to other well-established manufacturers in the dominion?

Mr. FACTOR: At that stage they thought they could not manufacture it in Canada.

The WITNESS: I did not know about that until afterwards, Mr. MacNeil. I think it was when the evidence was given before the commission that I first knew of it. But I see nothing at all erroneous in having done that.

By Mr. Green:

Q. At some stage Hahn became a selected contractor.—A. In the first place, Hahn came up to the national defence headquarters and he told the deputy minister—I think I am correct—that he thought he could produce these guns in Canada if he got the co-operation of Great Britain. He went over and he found that the credentials or letters of introduction he had were not of sufficient avail, and there was a wire sent to External Affairs here, I think, as a result, on November 9, which was replied to on November 10, which gave him in regard to the Bren gun only the right to represent the government for investigation purposes. As a result of that he made a report, a very comprehensive report, on the 5th day of December, to the Minister of National Defence. Immediately after that report was in he was no longer in any way whatsoever a representative of the Canadian government. He was a potential contractor from that time on.

Q. From the minute Hahn was made a representative of Canada and had made his examinations at Enfield and the other arsenals in England he was then certainly in a very much preferred position?—A. There is no doubt at all about that.

Mr. BERCOVITCH: Not altogether, I submit, Mr. Minister.

Mr. GREEN: You have had the minister's answer.

The WITNESS: Anyone else who could have competed with him would have had to go over to England and get the consent of the war office and go through the same inspectional work at the Enfield plant and have the same details at hand.

Mr. GREEN: My point is this, that the minister made a clear answer to that question, and it is not necessary for Mr. Bercovitch or any other government member to rush in and change the answer.

Mr. BERCOVITCH: Does it make you feel better? If it does, the minister completed his answer before I had a chance to say anything.

Mr. McGEER: That is the point. I think, in order to keep the record accurate, on the evidence that we have had here it was decided that the requirements of the Canadian government would be 7,000 guns; that the minimum unit of production that was within the limits of economical production was 12,000 guns; so that the whole question of setting up production here was dependent on whether or not a contract could be secured from the British War Office for 5,000 guns. The Department of National Defence had information on December 17, 1936, that the British War Office requirements were satisfied and that no assurance of a British War Office contract for production in Canada could be secured; and I think where Hahn did show enterprise was that in the face of that situation he still went back to London.

Mr. HOMUTH: He showed it all the way through.

Mr. McGEER: I think another thing he did was that he got entry through his war record which would give him access to secrets.

Mr. HOMUTH: But there are lots of manufacturers in Canada with just as good war records as he had.

Mr. McGEER: That might be so, but he happened to have it. Now, any other contractor with or without that record, could have secured the same measure of co-operation from the Department of National Defence had he occasion to ask for it.

Mr. HOMUTH: No one else knew that any Bren guns were required.

Mr. MACINNIS: We are not complaining about Hahn's enterprise, we are finding fault with the department's lack of enterprise.

By Mr. Green:

Q. Would you question this as a summary of the situation, that Major Hahn had at every step been pushed and helped by the Department of National Defence; it was really Hahn and the Department of National Defence working together that got the contract?—A. No, I do not think so, Mr. Green. I should say that he pushed himself at every step, all the way through.

Q. We will have to take you over all the letters and show you how he was pushed on by your department at almost every stage of the proceedings?—A. We wanted to get results, we wanted to get guns. He had the individual enterprise and initiative to go to England and get the specifications of the gun; he was able to get through the plants over there, and we wanted to get results the best way we could.

Mr. GREEN: I am not questioning that.

By Mr. MacDonald:

Q. Did your department decide to purchase these guns at the time Hahn went to England, or was he just getting information?—A. He was getting information.

Q. There had been no decision made at that time?—A. No, not at that time.

Mr. BOTHWELL: I think the minister explained that this morning—if you will look at pages A-5 and A-6:

The problem came to my attention, first of all, in June, 1936. I had a memorandum handed to me in July from the master-general of the ordnance. I think it is in evidence before you. We were dealing then with the broad question of providing the department with many items of equipment held to be essential for defence by the staffs of the several services.

The WITNESS: Mr. Bothwell, that is correct as far as it goes. The memorandum was dated the 3rd of June, 1936, and it was brought to my attention when I was leaving for England which was in July, about a month after that. The actual memorandum was dated June 3.

By Mr. Bercovitch:

Q. But Major Hahn went over to England at his own expense, and if no contract had been given he was out of pocket?—A. Absolutely, yes.

Mr. HOMUTH: Wait a minute, Mr. Chairman, Hahn did not go over at his own expense because he submitted a bill for his expenses.

Mr. BERCOVITCH: That was after the contract was given.

Mr. HOMUTH: No, it was prior to the giving of the contract.

Mr. BERCOVITCH: No, no, not prior to that.

Mr. HOMUTH: After the contract was given he submitted a bill for expenses including \$300 a week for his own time as an item in the bill he submitted.

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Mr. BERCOVITCH: Where do you find that?

Mr. HOMUTH: We had the list right here.

The WITNESS: He has not been paid a cent.

Mr. HOMUTH: Quite.

Mr. BERCOVITCH: That is all after the contract was signed.

Mr. HOMUTH: Quite.

Mr. MACDONALD: Why do you insist on making statements that are not in accordance with the facts? While we are sitting back here listening we are taking stock of what is going on. Hahn stated that he was going to England at his own expense, and I accept that statement.

The CHAIRMAN: Gentlemen, I do not see why you should object, Mr. Green has not had an opportunity this afternoon.

Mr. BARRY: Mr. Chairman, let us cut out this nonsense of playing politics. I am fed-up with the committee just playing politics. This sort of thing should never have started in the first place.

The CHAIRMAN: Proceed with your questions, Mr. Green.

By Mr. Green:

Q. I do not think it is quite fair for you to make a statement such as you made this morning when you said that Hahn got this contract solely due to his own enterprise and initiative. Now, I stress the word "solely," because I think his evidence shows that he had a lot of help from the government; it shows that at every step someone in the Department of National Defence was helping him. It may have been quite right, and it may have been honest enough, but why try to get out of it?—A. If somebody else had come into the department and acted with the same energy and had the same entry into Enfield as Major Hahn had I expect that we would have helped him just the same.

Q. You say, had the same opportunity of getting into Enfield—A. Through them.

Q. But they might not have had the same opportunity of visiting Enfield. Major Hahn only got to Enfield because the Prime Minister sent word over appointing him our representative.—A. He required that authority for the purpose of seeing the specifications. They required some authority before showing them.

Q. Why say that that was Hahn's own work, his own initiative, when it was the government that pushed him into Enfield?

Mr. BERCOVITCH: The government did not push him anywhere.

Mr. GREEN: They opened the door to Enfield to him.

Mr. MCPHEE: He saved \$509,000 to the people of Canada by doing it.

Mr. GREEN: That is another question.

Mr. MCPHEE: There is evidence to that effect.

The CHAIRMAN: Order, gentlemen. Let us all be fair for a moment. Mr. Golding has a question he wants to ask the witness and I believe that Mr. MacDonald is waiting for an answer. Are you through, Mr. Green?

Mr. GREEN: I am not finished but I do not mind the interruption.

The CHAIRMAN: Mr. Golding, what was your question?

Mr. GOLDING: Mr. Chairman, I object to half the story being given. When Major Hahn was here he told us definitely that he went over there at his own expense. Mr. Green knows that. He knows he said that. Then after he got the contract and after saving this country thousands of dollars he thought then he was entitled to some of the expenses he had incurred in going over there. Now, that is the story complete. We believe Major Hahn's story.

Mr. DOUGLAS: That is not the complete story either.

Mr. GOLDING: The fact is that he went there at his own expense, and if he had not got the contract the expense would have been on himself. Now, that is the situation. You know that as well as I do, and everybody else.

Mr. McGEER: Of course, there is just one thing I think should go on the record in the light of what has been said now, Mr. Chairman, and that is a reproduction of part of the report made by Colonel Dewar to the Master General of the Ordnance dated at Ottawa, December 29, 1937 (page 129 of this record); reporting on the situation to the Master General of the Ordnance on that date he says:—

The total Canadian requirements of Bren guns is 7,000 and it is recognized that for the production of this quantity of guns the installation and operation of a complete plant would prove very expensive but, should the war office agree to placing an additional order with Canadian contractors selected to produce Canadian requirements, it is possible that a reasonable cost of production can be arrived at.

With this in view, the general manager of the John Inglis company, Toronto, proceeded to England about a year ago and began negotiating with the war office and with the other government officials responsible for the rearmament program in England towards the production of Bren guns in Canada for war office requirements. These negotiations have resulted in an expression of interest on the part of war office officials and it is believed that, if, with the increased cost of labour and material in Canada, a satisfactory financial arrangement can be made and, subject to the Canadian government approving production of 7,000 guns, that the war office will be prepared to give an order for the manufacture of 5,000 Bren guns in this country.

It is understood that the main consideration expressed by war office in considering the ordering of Bren guns in Canada is that manufacturing establishments in England are now so vulnerable to attack from the air that the establishment of a small arms plant outside the British Isles is to be desired, even to the extent of increased costs for the supply.

During the past year the general manager of the company has made three trips to England, has spent five months in that country, employing, while there, certain engineering and clerical assistance in order to obtain the necessary information on which to base an estimate of production in Canada and on which to frame a suitable contract. On his arrival back in Canada he and the representatives of his company have made a complete survey of the market as regards raw materials for the production of the required guns.

And then he goes on to state:—

It is not considered that Bren guns can be produced in the government owned and operated factory as cheaply as in the plant of a civilian contractor. Many features enter into a comparison of costs, for example:—

- (a) The cost of machinery would be the same in each case;
- (b) The capital expense of erection of a suitable building would greatly increase costs;
- (c) The overhead expenses of a civilian plant would be spread over the normal production of the company as well as over the Bren gun costs;
- (d) Civilian business organizations are more highly specialized in production methods and have more freedom of action in developing production.

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Rental rates and depreciation on buildings will be subject to confirmation by officials of the Public Works Department. As time is a factor, it is desired to give consideration to this contract, subject to such revision as may be necessary on receipt of the report from the Department of Public Works.

The general manager of the company is desirous of proceeding to England with the least possible delay to finally negotiate the war office contract. Before he leaves, it is considered advisable to inform the war office as to the terms under which the Canadian government might consider placing an order with this company.

Now I submit, Mr. Chairman, that is very complete proof that the Department of National Defence as late as December 29, 1937, had not determined to purchase any guns whatever, and that the whole of the work of Hahn had been done without any such assurance up to that time.

Mr. GREEN: Well, we will have to show that, I am afraid.

Mr. McGEER: I am submitting this as the report of the department.

Mr. GREEN: Now, Mr. Minister, if you refer to the report of Mr. Justice Davis—

The WITNESS: Yes.

Mr. McGEER: You just insist on neglecting the evidence that is on the record.

Mr. BERCOVITCH: It seems they can't do anything else.

Mr. DOUGLAS: Did you boys practice that before you came down here?

Mr. GREEN: They wipe each others tears for them.

Mr. BERCOVITCH: We don't have to when we look around and see the sickly smiles on all your faces after the minister's statement this morning.

Mr. McGEER: We keep going over and over the same thing.

By Mr. Green:

Q. Well, Mr. Minister, have you that Davis report before you?—A. Yes.

Q. Then, is Mr. Justice Davis correct (at page 23) when he says when Hahn got to England he could not make any progress at all with the war office and that he phoned you?—A. That is correct.

Q. And that different cablegrams were exchanged? My recollection is that there was one sent to the deputy minister about the 6th day of November.

Mr. McPHEE: The minister dealt fully with that in his statement.

The WITNESS: There is a telegram to me, which is in the record, sent by Mr. Plaxton, on which I took no action at all.

By Mr. Green:

Q. There was also a 'phone message put through by Hahn?—A. There was a 'phone message, he is absolutely correct, that is referred to in the evidence before the commissioner.

Q. At any rate, you cabled—your department cabled to Great Britain to help Hahn out; or, did they get the Department of External Affairs to do it?—A. The Department of External Affairs sent a cable on the 10th of November as a result of a cable that came from Major Hahn, it was referred to me by the Department of External Affairs on the 9th day of November, asking for this added authority.

Q. Is this the cable which came on the 9th of November from Mr. Massey to the Department of External Affairs; is that set out at page 24 of the report?—A. Just a second until I look at it. Yes.

Q. It reads:—

Have received to-day following request in a wireless message direct from Department of National Defence.

—A. Yes.

Q. So, apparently, there was a message from the Department of National Defence to Mr. Massey?—A. You will find that is on the record, in the commission record.

Q. Then Mr. Massey sets out in his cable to the Department of External Affairs, the cable which had been sent by your department, reading as follows:—

Please request Major Hahn now in England to communicate with me through your office in cypher his impression as to possibility of producing Bren gun in Canada. This is urgent and ask him to give details such as time required for delivery and estimated cost. Ends.

That cable which is quoted was actually sent by your department?—A. Sent by the deputy-minister, I believe.

Q. Then Mr. Massey's cable goes on:—

In order to obtain information desired, war office must be requested to give Major Hahn, as representative of the Canadian government. . .

And you will notice that he uses those words there for the first time "as representative of the Canadian government".

access to information of a secret nature which normally is not given to other than government officials.

Major Hahn also informs me that Minister of National Defence has requested him to obtain, if time permits, all available information regarding manufacture of tanks and shells which will also necessitate similar request from the war office.

Before making any application to war office, would appreciate instructions. Would be grateful for such instructions by to-morrow if possible. Massey.

Then the commissioner finds that that message from Mr. Massey was transmitted by external affairs to your department. That is correct, is it?—A. It must be correct.

Q. And in reply the cable was sent— —A. I think it is logical to presume that the department must have been consulted about the message.

Q. Was there a discussion between the Department of External Affairs and the Department of National Defence?—A. There must have been before the reply went the next day.

Q. You do not remember?—A. Not definitely. That is very plainly set out in my evidence before the commissioner.

Q. On November 10, the Secretary of State for External Affairs, after consulting with you or your department, sent the high commissioner a cable in reply which reads:—

Your cablegram 9th November 396. Have discussed matter with Minister of National Defence. You might request war office to give Major Hahn, as representing Canadian government in this particular, any information which they consider desirable and necessary to enable National Defence to reach conclusion on possibility produce Bren gun in Canada. It is not desired to request furnishing of information on any article other than this gun.

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What was the reason for restricting that to the Bren gun? You perhaps remember that?—A. I do not know if I remember definitely; but it was possibly our most urgent requirement at that time. That is probably the reason for that. There is no doubt there must have been discussion at that time in regard to the situation and it was decided not to give general permission in regard to all our requirements. You will find in my letter of introduction it referred to munitions generally; but he was restricted to Bren guns when he was over there because that was the most urgent requirement.

Q. Really from the time of the cable of November 9 or November 10, 1936, Hahn had the status of representative of the Canadian government?—A. Until the 5th of December when he reported to me after he came back from England.

By Mr. MacNeil:

Q. You knew when you gave the letter of introduction that he was a potential contractor?—A. Yes, like others; I remember giving thirty or forty letters to men in similar positions; not probably in the same phraseology but in a similar condition.

Mr. BARRY: Mr. Chairman, I am disgusted with the entire proceedings that have gone on in this committee. May I say that this thing should never have been referred to the public accounts committee, because you had an inquiry under one of the finest justices of the Supreme Court of Canada. Then you asked to refer it to a committee of the House of Commons—the most disgraceful thing, in my opinion, that has ever happened in Canada. I want to tell you that to-morrow I am going home. I am leaving. I want to tell you that these entire proceedings to me are absolutely disgraceful. It seems to me it is absolutely a case of playing politics. I am ashamed of it all. I went up and viewed the plant where the Bren guns were made. I never was so proud of any plant in my life. It was the most perfect thing I ever saw; it was perfectly equipped. I am proud of it. I heard the stories that had been told by these hon. gentlemen across the floor of the House of Commons, in which they called it a boiler factory. Then I began to doubt their sincerity, and then I was convinced of their insincerity. Mr. Chairman, I want to assure you that I have a good many things that I want to do before I go home, but I am disgusted with the entire idea of referring this to the public accounts committee.

Mr. MACNEIL: You voted for it.

Mr. BARRY: I did not. I am opposed to it. I do not believe in it. I think it is unnecessary.

Mr. McGEER: In any event, we have got the inquiry to go on with now.

Mr. BARRY: I am disgusted with it.

Mr. McPHEE: I think you should differentiate as to who is playing politics.

Mr. DOUGLAS: Do not embarrass him.

Mr. BARRY: I am disgusted with the whole thing. I thought after the visit of Their Majesties over here, that you men would have more loyalty, more common sense, and more realization of conditions as they are instead of trying to put the present government on the spot and use the condition of world affairs to defeat the government that happens to be in power at the present time.

Mr. DOUGLAS: You are not suggesting that we are doing that?

Mr. BARRY: I am disgusted.

Mr. BERCOVITCH: You are not suggesting we are doing that?

Mr. BARRY: No.

Mr. BERCOVITCH: Who is doing it?

Mr. GREEN: Mr. Chairman, as soon as he starts mentioning names—

Mr. BARRY: I am going now. It is the most disgusting thing I have ever listened to.

Mr. HOMUTH: He has listened to very little about it, and I think that ought to go on the record too.

Mr. DOUGLAS: And understood very little of what he has listened to.

The CHAIRMAN: I believe the hon. gentleman has finished his address now, and we will proceed.

By Mr. Green:

Q. Mr. Minister, Major Hahn was at least appointed a representative of the Canadian government?—A. Yes, for that particular purpose.

Q. On November 10, 1936?—A. Yes.

Q. Then, if you will check up the correspondence and reports subsequent to that time, I think you will find that he is named on different occasions subsequently as being the Canadian representative; and I do not see why this situation should be questioned at this time.—A. I do not think he was after the 5th of December. Was he referred to at any time after that?

Q. I have seen it on half a dozen different things.

Mr. McGEER: No. You cannot name one.

The WITNESS: As a matter of fact, if you will recall the evidence before the commission, you will find out that the British war office did not so regard him, because at one time, when a conference was called for, I think it was early in 1938, they specifically asked to have a representative of the government present at the conference with Hahn, with regard to the details.

By Mr. Factor:

Q. And he was present?—A. And he was present.

Mr. McGEER: Mr. Green has put on the record that he has seen after that date at least half a dozen references to Major Hahn as a representative of the Canadian government.

Mr. FACTOR: Which is entirely inaccurate.

Mr. McGEER: I do not believe that is true.

The WITNESS: That is my recollection.

Mr. McGEER: If it is so, I would like to have them.

Mr. GREEN: I propose to bring out each one; so you need not worry about that.

By Mr. Green:

Q. Why did you not send over an officer from the department to get this information about the manufacture of the Bren gun?—A. I think an officer had been there before this, had he not? Had not Jolley been there before this?

General LAFLECHE: I think so.

By Mr. Green:

Q. Why did you have to have a munitions contractor go over and act as your representative to get information?—A. It is after he went over there, he became for this particular purpose a representative of the government to get the information—after he was there. I think he left here in October, and had been there perhaps a month.

Q. Why could not the Canadian government get all the information necessary from England and then call in a contractor or call in a manufacturer or any number of manufacturers and explain the situation to them? Why could that not have been done?—A. I doubt very much if the specifications could have been given to a number of manufacturers. I doubt it very much.

Q. Was there anything to prevent a government representative who was a proper official of the government from getting the information that Hahn got

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subsequently?—A. I should think not; but I would think this, that the British war office would not allow these specifications to be broadcast wholesale. I am very sure they would not. I think you will find that in the evidence there.

Q. That is a second point. But there is no reason why you could not have sent over some official of your department to get the information about the manufacture of the Bren gun?

By Mr. Bercovitch:

Q. After they got it, what would they do with it?—A. That is the point.

Q. What would you do with it?—A. That is the point exactly.

Mr. GREEN: That is a fair question.

The WITNESS: The question is quite fair.

Mr. GREEN: Do not interrupt.

Mr. BERCOVITCH: I am sorry.

Mr. GREEN: I asked a perfectly fair question of the minister and he is just as well able as Mr. Bercovitch to answer it.

Mr. BERCOVITCH: Much more able, I assure you, Mr. Green. But I think I have a right to interject a question occasionally. Mr. Green was complaining about this being a one-man show. Now he is usurping the function of a one-man show.

Mr. BROOKS: You do not ask them. You answer them. You answer questions for the minister; you do not ask them.

Mr. BERCOVITCH: The answers are not satisfactory?

Mr. BROOKS: To you, no.

Mr. DOUGLAS: They are only half answered.

Mr. BERCOVITCH: I think this is important. I insist upon being allowed to put that question.

Mr. GREEN: We might as well get this procedure cleared up. If Mr. Bercovitch is going to be allowed to interrupt in the middle of my questions, then we want to know it.

The CHAIRMAN: You put your question, Mr. Green.

Mr. GREEN: I have already put it.

The WITNESS: The answer would be, Mr. Green, that I do think we could have sent an official over and could have possibly got information of a certain kind. Whether the official would have been qualified from experience to estimate costs and these things is a different point. But even if we did get that information in our department, what would the next step be? Could we ask five or six firms in Canada to come in without the consent of these different controlled specifications in Great Britain?

Q. You admit that the government could have done that?—A. That is purely a technical question, yes.

Q. After you had got all that information, what was to prevent you from calling in, say, two or three different firms and telling them what was required and finding out whether or not?—A. Of course, that would be a matter I could not be specific about because that would be subject to the consent of the British war office and the Enfield plant.

By Mr. Bercovitch:

Q. As a matter of fact, I think you did say, Mr. Minister, that the process specifications or operation lay-out is secret and under the control of the war office?—A. That is correct.

Q. I think you said that?—A. Yes.

Q. And you said that information from those process specifications required for estimating purposes was made available to Major Hahn and formed the basis of his proposal?—A. That is correct.

By Mr. MacNeil:

Q. You have officers in your department who are experienced in small arms?—A. Yes. I would say that Col. Theriault was; he is head of the Valcartier Arsenal.

Q. Inspector of Small Arms?—A. Then there is Howard. He is Inspector of Small Arms.

Q. And the staff of the Royal Military College. I mean, they had experience in machine lay-out?—A. I would think that certainly Col. Theriault has. I think they are both experienced.

Q. The point is they would have been given this information at Enfield by the British war ministry?—A. I presume so.

Q. Could they not have brought back to Canada sufficient information so that the true facts could have been known as well as anyone else?—A. There are two points involved with regard to your question. In the first place, we would need to get the consent of those controlling the secret process specifications in Great Britain to do that very thing you mentioned. In the second place, if we were going to go ahead ourselves with Canadian manufacture and were looking for a complementary or supplementary order from Great Britain, we would become the agents of the British government for arms production in Canada, which was the very negation of our declared policy.

By Mr. Green:

Q. This Col. Theriault is head of the Quebec arsenal?—A. Yes, superintendent.

Q. And obviously very experienced in the manufacture— —A. An excellent, very capable official.

Q. Whereas Major Hahn had no experience in the manufacture of armaments at all?—A. I do not know whether he did or not, Mr. Green; I do not know.

Q. You see, it would appear that relying on Major Hahn for work of that type, that it should put him in a very much preferred position.—A. Yes; I think he put himself in that position. He was the man who by his own initiative put himself in that position.

By Mr. MacNeil:

Q. But he was given a letter of introduction by you?—A. If anyone else had come to me that same day and he was recommended by a member of parliament or an industrialist known to myself, he would have got from me a similar letter to that which Hahn got. But after he went to England he found that letter was not sufficiently strong, so in this particular he was made an agent of the Canadian government.

By Mr. Douglas:

Q. That is the thing that assisted him.—A. There is no doubt about that.

By Mr. Bercovitch:

Q. That again was due to his own initiative.—A. No question about that.

The CHAIRMAN: Before any members of the committee leave, I wonder if we can decide two things. The first is how long do we want to keep the minister on the stand, and secondly, if you wish to continue his examination, can we adjourn until 8.30 or 9 o'clock to-night?

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Mr. GREEN: We cannot sit to-night.

The CHAIRMAN: The minister has an appointment in Vancouver on Wednesday and would like to get away to-morrow morning, so I should like to arrange our meetings accordingly.

Mr. GREEN: I am afraid we cannot sit to-night. We have been sitting four hours to-day.

The CHAIRMAN: Can we procure from the deputy minister the rest of the evidence that you require in connection with the contract?

Mr. GREEN: No; the minister is the most important witness that we will have before us. I think we should be allowed to examine him. He is the principal officer in charge of the department.

The CHAIRMAN: If the committee decides to continue the examination of the minister, there is only one answer to that, and that is the minister will have to remain to be examined; but I should like the committee to be informed of the appointment of the minister.

Mr. FACTOR: Why cannot we sit to-night and finish up? A lot of us sacrificed to-day in order to be present at this meeting. Surely the other members of the committee can give us a couple of hours to-night without any undue harm to themselves?

Mr. GREEN: We have to be in the house, unfortunately.

The CHAIRMAN: Gentlemen, it must remain with the committee.

Mr. BERCOVITCH: I move that we sit to-night.

Mr. McPHEE: I second it.

Mr. GREEN: I cannot be here, that is all.

Mr. McGEER: That is up to you.

Mr. GREEN: We agreed to sit to-day. We have sat four hours to-day.

Mr. BERCOVITCH: I do not know that you did us any special favour.

Mr. MACDONALD: We sat four hours to-day and went around in a circle.

The CHAIRMAN: The members of this committee know the facts that we are confronted with. I think we shall have to leave it to the committee, or the majority of the committee, to say whether we shall sit to-night or not. If you could finish with the minister in two hours that would be all right. I believe we can arrange to have the pension estimates adjourned and you would not have to be in the house to-night.

Mr. AHEARN: There is a motion before the chair.

Mr. BROOKS: We should like to be in the house on the other estimates.

Mr. McGEER: We should all like to be there.

Mr. FACTOR: I should like to have been at Woodbine to-day.

Mr. GREEN: We cannot finish to-night.

Mr. McGEER: I think the convenience of a minister of the crown should be considered at this particular time. If it is not going to be considered, well, of course, that is another thing.

Mr. HOMUTH: Why do you have to interject that?

Mr. GREEN: There is no need for you to make a slurring remark like that. We have considered the minister by sitting four hours to-day. We did not know he would take all morning on his own statement; we were not to blame for that.

Mr. GOLDING: What you have had all day is repetition.

The CHAIRMAN: There is a motion before the chair. It is moved by Mr. Bercovitch that the committee adjourn until 8.30 to-night. What is your pleasure?

Motion agreed to.

Mr. GREEN: If you want to start that kind of thing we will meet you.

The committee adjourned at 6.05 p.m. until 8.30 p.m. to-night.

EVENING SESSION

The CHAIRMAN: Gentlemen, we have a quorum, and we will proceed with the minister.

Mr. MACINNIS: Mr. Chairman, I should like to ask Mr. Mackenzie a very few questions.

The CHAIRMAN: Yes.

Hon. IAN A. MACKENZIE, recalled.

By Mr. MacInnis:

Q. Mr. Mackenzie, when did the Department of National Defence decide for the first time that the Bren gun was the weapon you wanted?—A. The first memorandum that I had was written by the then Master-General of the Ordnance on the 3rd of June, 1936, but that was not given to me then, it was given to me on the boat when I was leaving for England, I think, early in July.

Q. It was given to you in July?—A. Yes, 1936. May I correct or amplify that? I think in one of the confidential reports I got from the chief of staff shortly after I took office the Bren gun was mentioned amongst other necessities of the department in a general way; but in regard to the particular requirements, the number of 7,000 was based upon the re-organized militia, a portion of the 6th infantry and one of cavalry.

Q. On page 5 of the commissioner's report, just near the bottom, there is this statement:—

The Bren gun production was our most vital necessity in the Dominion of Canada.

That would be your statement?—A. Yes.

Q. When this memorandum was placed before you in July and you had decided that the Bren gun production was the most vital necessity in the Dominion of Canada, what steps were taken between then and the 9th of October when Major Hahn was introduced to the Deputy Minister of National Defence to try to meet this necessity?—A. Nothing really was done between those dates. I was over at the Vimy unveiling in July of that same year and had discussed the situation, as you will find in the evidence before the commission, informally with the British authorities and could not find anything very definite at that moment. Then I returned to Canada I think about a month after that.

Q. You returned when to Canada?—A. I am informed that the department asked for prices from the British government a little later in the same year, in August.

Q. Did you take any steps then to ascertain if there were plants in Canada that could manufacture the gun?—A. No, I never really concluded that we could, unless we had our estimates very substantially increased, face the possibility of developing the production of Bren guns in Canada ourselves.

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Q. You did not take that under consideration, and consequently nothing was done except the inquiry to the British government?—A. That is about right.

Q. There is an exhibit here somewhere in reference to that.—A. Yes.

Q. To what extent did you go into the possibilities of manufacturing in Canada, or did you investigate that at all?—A. I think you will find in the evidence given before the commission by Colonel Dewar and Mr. Jolley that certain investigations were made by them in that direction.

Q. Exhibit 69 is a report signed by Colonel N. O. Carr?—A. Yes.

Q. It is signed D. of M & A.—A. He is director of mechanization and artillery.

Q. Colonel Carr made while not a full report a fairly careful report on the production of Bren guns in a government plant. I will read very briefly from this exhibit:—

No figures as to cost in production are available. Those now on order will, from information received, cost approximately \$1,200 each before delivery is effected.

A. I think it was ten. I think the other ones cost more, as I told you this morning.

Q. If the war office set up a new factory to meet the requirements of the dominions, it seems reasonable to assume that cost would be higher than were we to await production from existing factories after all war office requirements had been met therefrom. If then, war office proposals were accepted countenancing the erection of an additional factory, it seems fair to estimate that cost in production from such a factory of the number required, would average say \$900 each, and hence the sum of \$6,300,000 would be needed to meet ultimate re-armament requirements.

Against this source of supply exists the alternative of production in Canada. The privilege of so doing was vouchsafed to the Canadian government by the war office when it acquired the rights of manufacture from the patentee, the only stipulation being that such production must take place in a government-owned factory. The cost of such a factory fully equipped but excluding the special tools and jigs for the manufacture of the Bren or any other light weapon, would be approximately \$2,000,000. Once erected, this factory would be available and suitable for the production of any light weapon ranging from the service pistol to a machine gun of—say $\frac{1}{2}$ -inch calibre. Such a method of supply has therefore the distinct advantage that we would thereby become more or less independent in the production of light weapons. The importance of this is more fully realized when it is appreciated that all our equipment in this range is practically obsolete or about to become so. It cannot be denied that the actual cost of production in such a factory would be higher than were the same article procured from an established organization such as the Royal Small Arms factory, England, but it should not exceed such cost by a sum much greater than is represented by the higher standard of living enjoyed by workers in this country and the accompanying increased cost of raw material.

The establishment and development of a factory in Canada would occupy approximately three years up to the point where production could commence. It could be evolved more quickly, but we lack knowledge in the art, and better results would obtain at minimum cost if not unduly hastened. A few key labourers would have to be imported at first, but training of our own people would commence almost simultaneously. The unit factory visualized is one capable of producing 400 service rifles

per week of 48 hours. This is an economical unit but operations could be conducted on a lower scale with satisfactory comparative saving. The lay-out would also permit of producing more than one type of weapon at the same time.

From the war office letter above quoted, it is reasonable to assume that at least three years will elapse before any deliveries can be expected, and then only if combined demands from dominions warrant the erection of an additional factory. This allows one year to obtain the necessary authority from parliament. If the erection of a Canadian plant is considered and a similar allowance of one year for parliamentary approval granted, it is estimated that production could commence the latter part of the third year and that finished weapons might be expected in the fourth year.

Was this report followed up by any further investigation?—A. Yes; it was discussed by us in council. In Defence Council I mean; not in council of government.

Q. What was the conclusion?—A. I think I referred to that this morning, Mr. MacInnis.

Q. I was not here.—A. I will repeat what I said, with your permission.

Q. Yes.—A. We had quite a discussion, as the evidence already before the commission will show. We had, as I said then, two very definite schools of thought in the department. Colonel Carr was strongly of the opinion which is expressed in this letter, and I think the C.J.S. of that time was more or less of the same opinion. But it is one thing to be in favour of a theory and quite another thing to get the financial resources for carrying out that theory. It is very easy for anyone in the department to be in favour of this particular way of production; it is a very difficult thing for the minister to get the necessary money to carry it out. If you remember well the conditions in Canada in the middle of 1936, I had great difficulty in getting a vote of that kind for \$23,000,000 for all the necessities of the whole department. But public opinion has undergone a very marked change since then and, after all, in the portions of the letter you have just read, he is contrasting two things, and I think very fairly contrasting them. He is contrasting two alternatives: one getting the surplus requirements of Great Britain manufactured in Great Britain in conjunction with the dominions; and, secondly, a government plant in Canada. A third alternative developed later on, that is, co-operating with private industry in Canada which he does not discuss in this letter at all. I agree from a theoretical standpoint that what he suggests here is an ideal solution. The point is this: You must have a continuous source of supply economical to justify government-owned production of any requirements. In other words, if you manufacture all your machine guns in three years or three and a half years and then you suddenly have no further requirements in that direction, the government of the day, whoever they are, is bound to be faced with the necessity of throwing men out of work. That is one of the economical features. It is absolutely inescapable. It is the one thing that must confront us in contemplation of that situation.

Q. It is a world-wide situation in that regard?—A. Oh, yes, and possibly what I suggest might not eventuate.

Q. You referred to the cost; were Colonel Carr's figures checked?—A. I think you can regard Colonel Carr as an expert, Mr. MacInnis.

Q. He says, "The cost of such a factory fully equipped but excluding the special tools and jigs for the manufacture of the Bren or any other light weapon would be approximately \$2,000,000."—A. I would not pit my judgment against his at all.

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Q. I am not suggesting you would, but I was wondering if that item had been analysed and if it had been found that costs were higher.—A. I would not doubt that figure as being correct at all.

Mr. FACTOR: Does that refer to the building alone?

Mr. MACINNIS: No, I thought this would be the cost including the building.—A. "The cost of such a factory fully equipped but excluding the special tools and jigs for the manufacture of the Bren or any other light weapon would be approximately \$2,000,000."

By Mr. MacInnis:

Q. Yes. Now, that is not a very large figure. This was in 1936 after the session had adjourned and consequently you would not take it up until the next session, 1937.—A. Yes.

Q. And if you came before parliament and said you wanted this do you think you would have any great difficulty getting it?—A. You know as well as I do, you have been long enough in parliament, that before you come to parliament you have another hurdle to jump over first.

Q. Well, I only know the parliamentary one.—A. Some day you may know the other ones quite as well.

Mr. MACINNIS: There was nothing then done between that time except the one—

Mr. HOMUTH: It will be a long time before that.

Mr. MACINNIS: —nothing done except just this discussion in council?

The WITNESS: I tell you frankly—I was prepared to discuss it—something was intended to be done, but I am not in a position, for obvious reasons, to disclose what it was.

By Mr. MacInnis:

Q. So that nothing was done from the time that Major Hahn visited the office of the Deputy Minister of National Defence until the end of 1937 to ascertain any other means in the Dominion of Canada?—A. No, I think it is quite correct to say what I said to the commissioner, that after we got his report on the 5th of December, 1936, a very comprehensive and elaborate report, that the department kept up its pressure on the British War Office for a complementary order. I said also this morning, it was the policy of the government not to accept in a government-owned factory or through the government itself an order from any other government; in other words, to become the agent of the British or any other government for the production of machine guns or any other munitions. Whether that is advisable or not is a matter absolutely of opinion and argument. But that is the position.

Q. Would I be stating the case fairly if I were to say that once Major Hahn was introduced to the Deputy Minister of National Defence that the department's whole effort from that time on was to get the war office to give an additional contract to Major Hahn?—A. To give an additional contract, but to himself. He made a very definite impression on them. That is very strongly in the evidence before the commission, and this committee. He went over and saw the Enfield people and I understand from reports I have received that he made a remarkable impression on them over there.

Mr. MACINNIS: I can quite understand that. He made a good impression everywhere.

Mr. MCPHEE: Even in this committee.

Mr. MACINNIS: He just creates that impression. He was introduced to the deputy minister and following that he was introduced to the minister, and then he went over to England with a letter from the minister and then he got a letter from—there were instructions given by the Prime Minister

who never saw him at all to make him Canadian representative. It is the most amazing thing in the world to me. The point I want to make—I am not finding any fault with Major Hahn, he was looking for business and he was quite within his rights to make every effort possible—I am inclined to find fault with the government for not taking any further step, it seemed that once a favoured contractor was picked their whole effort was then to bring pressure on the war office—

The WITNESS: To get results.

Mr. McGEER: To get production in Canada.

Mr. MACINNIS: We are not going to let Mr. McGeer get away with that. And now, there was another alternative production in Canada in the exhibit from which I read, Exhibit No. 69. There was nothing to show that any effort—this required only a small sum of money—there is nothing to show that any effort was made to get production in Canada on the basis of this report. And there is not the slightest doubt that if the same effort was applied to getting production in Canada on this equipment we would have done just as well as by bringing pressure on the war office.

Mr. McGEER: There is just this to be remembered in the evidence that was taken, whether the government of Canada were right or wrong the government had declared the policy that they would not produce arms for any other government in a plant in Canada. That precludes the possibility of securing a complementary contract from the British War Office in a Canadian government owned plant. Now, that policy may be criticized but the Department of National Defence cannot be condemned because they were compelled to act in the face of that policy.

Mr. MACINNIS: The Department of National Defence were not compelled to act at all, the Department of Defence acted of its own free will.

Mr. FACTOR: The government's policy was not to be an agent to the supply of other countries with the Bren gun.

Mr. MACINNIS: The government is almost as much an agent now because they are paying for the Hahn plant which will revert to the government when Hahn is finished with it; consequently the government is acting as much as an agent of the British government now as if it were doing it in its own plant.

Mr. McGEER: That is a matter of argument.

Mr. HOMUTH: As far as this debate is concerned the minister might have left for Vancouver to-night.

By Mr. MacNeil:

Q. You referred to the estimates prepared by your officers with regard to arsenal production?—A. Yes.

Q. Was there any estimate furnished exclusively with regard to the production of small arms?—A. Yes, I believe there was.

Q. Have you any recollection of what that amount was?—A. I think it was over a million dollars. My recollection is that tentatively I endeavoured to get that amount for the Bren gun.

Q. This exhibit 69, with which you are no doubt familiar, contained a letter written to the department in February, 1936, addressed to the High Commissioner that the department is informed that a licence has been obtained by the British government that manufacture may be permitted— — A. Was that for the two, for the ten or for the twenty-one?

Q. I beg your pardon?—A. There were three different orders received of the Bren gun; two were from Czecho-Slovakia, then there was an order of ten, and then there was an order of twenty-one guns.

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Q. This is just advising the department that they had made arrangements with the patentee as to standardizing. I understand, further, that it is the policy of the department to standardize all British equipment through the exchange of equipment and of personnel?—A. Yes.

Q. This information was given on the 20th of February, 1936?—A. Yes.

Q. If the estimate was only for a million it is rather difficult to understand why it was impossible to go to parliament in 1937 and say that a part of that estimate was going to be applied to the manufacture of Bren guns.—A. The reason is very very plain to me, because the schedule was very very limited and the amount required for the purpose could be included in the total. Policy was not decided until the 29th of October of the same year.

Q. Is that 1936?—A. Yes.

Q. I am referring to the session of 1937.—A. I thought you said February of 1936 a minute ago.

Q. Almost a year elapsed before parliament assembled in 1937. Why was it not possible then to bring that in?—A. For the same reason exactly. I recall very definitely—it is very difficult to discuss these things—I recall that in my tentative estimates there was some provision for Bren guns at that time but it was not approved.

Q. Is it fair to say that the other alternative was the exchange of equipment and the exchange of information with the British War Office, or by securing a secondary source of supply?—A. Do you mean a secondary source of supply in Great Britain?

Q. In Canada?—A. Certainly it was, yes.

Q. Why were not other plants investigated and all possibilities considered? A. I think you will find in Jolley's evidence or in Dewar's evidence before the commission that there was a very careful examination and that it was made the subject of report. I have forgotten the exact date of the report made to the department.

Q. Are we to understand that another plan was under consideration?—A. I know that we did not abandon the possibility, the difficulty was to get the financial resources in sufficient amount at the time to get our requirements met; and even had the recommendations of Colonel Carr's letter been carried out you would find that it would have been in 1939 before there would have been production in this country under that suggested scheme of his, possibly a little later.

Mr. MacINNIS: Production would all be about the same date.

The WITNESS: The establishment of a plant in Canada would occupy approximately three years from that date up to the point where production would commence. That was dated on the 3rd of July, 1936; so that would be 1939. We will commence production, I think, quite as soon as that.

Mr. FACTOR: You have not got your appropriation until 1937; three years from 1937.

Mr. MacINNIS: He makes it up to that.

Mr. FACTOR: This report is dated 1936.

Mr. MacNEIL: Col. Carr allows one year.

The WITNESS: I think it all comes down to the question of getting the necessary finances and also whether it is economical for a government, whatever the proper theory is, to have national control over a commodity, the production of which is going to be very limited; because in two, three or four years you will not require that limited requirement any more. That is purely a matter of opinion, I think, as between the two systems.

By Mr. McGeer:

Q. As a matter of fact, when you get your estimates in the Department of National Defence, in dealing with them I presume you get the total amount

of what is going to be allowed for everything?—A. The way estimates are prepared is as follows: When the time comes around when the Minister of Finance asks any minister to get his estimates ready, the minister concerned asked his department for what they consider to be their requirements, and it is the same in every department of government. It is the same and will always be the same, whatever government is in power. The requirements that are submitted to the minister are far in excess of what any minister can get.

Q. Then the report comes back as to how much you can get for that department?—A. You are cut and sliced all the way through until you get down to the nearest minimum possible which the Minister of Finance thinks the country can stand. That is essentially the way any government must operate in this country.

Q. But the Minister of Finance fixes the amount which you are going to operate for your department?—A. It is fixed by the government as a whole.

Q. I mean, the amount.—A. Yes.

Q. And then it is up to the members of the department to fit their year's expenditures into the total of what is available.—A. That is quite correct. If I am told that I cannot get more than \$30,000,000, you will find possibly the militia estimates could cut down by 10, the navy by 5 and the air by 10. I call in the heads of the three staffs and I say, "Gentlemen, you have got to cut down your estimates according to the amount which the department is going to get, and if you cannot agree amongst yourselves I may have to make the decision myself." But generally speaking, they have agreed amongst themselves as to the impairment for the various services of the defence forces.

Q. We now come to the consideration of this estimate for the public production of the Bren gun?—A. Yes.

Q. Was there any time in 1936 or 1937 or 1938 when there were funds available under those circumstances for the establishment of a publicly-owned arsenal for the production of small arms in Canada?—A. No. That was the unfortunate part; there was not.

Q. It is all very well for us to be talking about this, and saying you only needed \$2,000,000 or a \$1,000,000 for that. But it is for the department officials to decide what their needs are in the light of the total that is available.—A. We would have liked very much to have gone ahead with the munitions plant at Valcartier. It would have cost \$5,500,000 or \$6,000,000. But we could not take that out of the \$23,000,000 without absolutely ruining very essential requirements in other services.

Q. And the same thing applies to the Bren gun situation?—A. It would at that time. To-day, probably with our appropriations being larger, you could get it done; but not then.

Q. Those of us who have been in the house in 1936, 1937, 1938 and 1939 know that there is a very great difference between the attitude towards defence estimates to-day and what it was in 1936 and 1937; certainly my impression of the house was that if you had said you were going to build a public arsenal to produce guns for Great Britain in 1936 or 1937, there would have been a terrible row in the house.

By Mr. Green:

Q. The sum and substance of it is, Mr. Minister, that the government did not feel that they could ask for the necessary money to set up a publicly-owned arsenal?—A. That is quite correct.

Q. Because you said in the house the other day that you thought that small arms should be manufactured by a public arsenal?—A. I still think so. As a matter of fact, I was inclined then and am inclined now very much towards

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the public ownership school of thought. When you are Minister of National Defence, you will find that a lot of grief will go if you have public ownership.

Q. By that time all the wars will be over.

By Mr. MacNeil:

Q. You were very clear this morning that Major Hahn was made government representative?—A. Yes.

Q. Were you aware that on his first visit to England he made a proposal to Sir Harold Brown inviting a contract to be placed with his firm?—A. No.

Q. Inviting the British government?—A. No. The first I knew of that—first of all, I got his own report sent to me in regard to the general situation with reference to the production of the Bren gun on the 5th of December, 1936. Then we went over to the Imperial Conference in 1937 and the deputy-minister informed me while I was in London—I did not see Hahn there at all—that Hahn was making substantial progress in his negotiations with the British authorities.

MR. FACTOR: That he had made it in the previous December and was still making it.

By Mr. MacNeil:

Q. Was he regarded as government representative then?—A. No. He was never in my judgment—he was never regarded by us or anyone else as government representative after he gave us the comprehensive report of the 5th of December.

Q. The exhibits show—I am not going to refer to them—that he made proposals during his first visit in England.—A. I do not doubt that. I did not know anything about that.

Q. So that it was highly important for a government representative to make such a proposal?—A. That is a matter for him to judge. But he was our representative to get us information because at that time we had not decided on our policy. We were trying to get moneys for the production of the Bren gun. We did not know whether we would get them in England or get them here. We did not have any comprehensive information. He made a report which is really a most wonderfully comprehensive report.

By Mr. Factor:

Q. At that time he was merely furnishing you with some valuable information?—A. Yes. That is the whole purpose of his agency.

By Mr. MacNeil:

Q. It is clear now that he took advantage of that situation to negotiate on his own behalf?—A. That is, I think, a matter of possibly fair comment.

MR. McGEER: There would not be any objection to a man going to England as agent of the government of Canada to get information for the government of Canada, and to at the same time seek a contract with the government of England; because the agency between the man and the Canadian government would have no limiting restrictions on his dealing with the British government. There is no violation of any ethical principle there, in business or politics, that I can see. I do not know.

MR. GREEN: The principle is as to whether a private munitions contractor should be a government representative.

MR. FACTOR: He was not a government representative.

THE WITNESS: On that point I take the position, rightly or wrongly—and again that is a question of opinion or argument—that he was not a munitions contractor or potential contractor, at least in our view, until after he made that report.

Q. He went to England looking for munitions contracts of any kind?—
A. There is no doubt about that as far as he was concerned. As far as we were concerned, he went there to get us all possible information in regard to munitions production generally.

Q. You knew when he went that he was a munitions manufacturer?—A. I did not know except that I was informed in a general way that he had developed an interest in munitions questions and in the Bren gun which he had seen.

Q. On page 20 of the commissioner's report we find a letter from the Deputy Minister of National Defence to the Under-Secretary of State for External Affairs dated March 20, 1936?—A. Yes.

Q. Which sets out the whole situation; and, in fact, it goes very far because it says that Major Hahn represents "a reliable group which controls certain manufacturing plants—not plant, but plants—capable of manufacturing armaments and munitions, and located in a large industrial centre where the labour and material factors are stable and favourable." That is the word that your department sent out to external affairs with the idea that it should be forwarded to Great Britain?—A. That is quite correct.

Q. And you, I think, saw this letter the day after it was written?—
A. Two days afterwards—the 22nd,—I think, if my memory serves me correctly.

Q. Mr. Justice Davis' report shows that you approved of that letter?—
A. I must have approved because it is initialed by me.

Mr. McGEER: What is wrong with that

Mr. GREEN: It shows that Hahn was looking for munitions contracts.

Mr. MACNEIL: I am content to accept the minister's statement. I am not quarrelling with it.

The WITNESS: May I correct my reply? I said that I initialed it, but evidently I did not. It was noted by the deputy minister that I had seen it on the 22nd.

By Mr. Green:

Q. In any event, you approved of that letter?—A. Yes.

By Mr. MacNeil:

Q. Major Hahn was not restricted in any way from negotiating?—A. No.

Q. When he was made representative he was not restricted from negotiating?—A. Not except in this particular. If you read the telegram of November 10th from external affairs, he was made agent, I think, there; that is in regard to the Bren gun he was restricted to information generally. There is a suggestion there in a previous telegram that the department asked him to get information with regard to tanks and shells; and evidently from the correspondence—I think the telegrams speak for themselves—when the discussions must have taken place in council or defence committee—I do not recollect where they took place—he was restricted to the particular investigation of the Bren gun.

By Mr. Factor:

Q. Mr. Minister, that was after this letter of October 20th?—A. Yes, six weeks after.

By Mr. McGeer:

Q. If this man had been able to go over to England and bring back large orders for the production of tanks, bombs and munitions, and put the John Inglis factory to work at full capacity, would not that have been a thing that would have been endorsed by your department? And if it could have been brought about that employment could have been given to men in Toronto, what else could the department do?—A. Well, the situation now is we are getting employment in a limited way of course, for our own people, with orders for Great Britain, and also our own orders.

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Q. This objection about limiting Major Hahn because he was getting information from you so that he could not go over there and bring back contracts that would put Canadian workmen to work—

Mr. MACNEIL: I am questioning the propriety of a man acting as government representative, and while acting as government representative taking advantage of—

Mr. FACTOR: There is where you are wrong.

Mr. MACNEIL: I accept the minister's statement.

Mr. FACTOR: In order to get certain particular information he was representing the government on the Bren gun.

Mr. MACNEIL: You can put it in any way you like.

Mr. McGEER: If it is wrong for the department of defence to aid manufacturers to go to Great Britain and bring back contracts that are going to put many workmen to work in what is really an empire service, I do not understand it. What is wrong with that? And what was wrong with the department doing what it did and helping Hahn to get the factory working producing munitions for the British War Office?

Mr. MACNEIL: I will try to refrain from arguing because I want to save the time of the minister who wants to get away.

Mr. McGEER: There must be a point to these things.

Mr. GREEN: You never see the point, that is the trouble.

Mr. McGEER: Don't you be too sure.

The CHAIRMAN: Order, order gentlemen.

By Mr. MacNeil:

Q. By virtue of the fact he was made government representative, he got special rights in England and got access to secret and confidential information. I am interested in knowing whether the government considers it propriety for a man while acting in that capacity to act also on his own behalf with regard to orders from the British government?—A. I am speaking only personally now. In the first place, he went to England and promised to get very valuable information for the Department of National Defence, which he did. He carried that out. But in order to get that information for us he found it necessary to get special credentials on the 10th day of November. He did give us one of the most wonderful reports I have ever seen in my life on the 5th of December. I think it is fair comment to say, having made the impression he made over there as a result of the investigations that he made, that he did take advantage of that, and that he became a potential contractor after.

By Mr. Green:

Q. When Hahn came back and made a report you people decided that the only possible way to get these guns made was to have Hahn make them, was it not?—A. I do not think so. I think what we did say was, we must have a complementary order. I have no doubt the department was very much impressed with the report he made. It was so technical it was sent immediately down to the M.G.O. and Colonel Dewar to have it dissected.

Q. You said this morning at page C-4 of your evidence:—

At this stage it became obvious that the hope of obtaining Canadian production of Bren guns depended on whether Major Hahn could induce the British government to give him a contract for the production of 5,000 guns from the British War Office.

As a result Major Hahn was permitted to make his investigations. He returned to Canada and made a full and complete report to the department.

Then farther down we see this:—

The department was also informed by Major Hahn that he believed he had succeeded in interesting the British government in the idea of establishing in Canada a secondary supply base for this weapon . . .

You state there that Major Hahn believed he had induced the British government to give him a contract.

Mr. FACTOR: That is a different thing.

By Mr. Green:

Q. That was the key to the situation.—A. It very likely was, because he was there first. We had the information. He had worked out a schedule of costs, production costs, in the most intricate way in the world, and he was there before anybody else was there. What we wanted was results. We wanted guns made as quickly as possible.

Q. Then you actually did all that you could to see that Hahn was able to get a contract from the British War Office?—A. I think that is fair comment.

By Mr. MacNeil:

Q. How do you reconcile that with the declared policy of the government as set forth in the Prime Minister's letter that such orders would have to come at the instance of the firm itself and not either directly or indirectly at the instance of the government of Canada?—A. What is that?

Q. The Prime Minister's letter to Mr. Plaxton which said it was not the policy of the government to invite orders from the British government; that the orders must be obtained on the initiative of the firms in question. I am paraphrasing it. It appears on page 17 of the report. That letter says:—

I may say, in reply, that we see no reason why a Canadian firm established for the manufacture of munitions should be precluded from obtaining orders from the British government. It would be necessary, of course, to see that it was distinctly understood that such orders as were obtained, were at the instance of the firm itself and not either directly or indirectly, at the instance of the government of Canada.

A. Yes. What was the date of that?

Q. Written on the 12th September, 1936.—A. Yes.

Q. My question to you is, how do you reconcile that with the subsequent activities on the part of the department in pressing the British government for a complementary order?—A. I think the answer would be that we saw the possibility of getting a complementary order from Great Britain. Hahn was there, had met the officials there, knew them, and had made a wonderful impression, and we decided to assist him just to assist ourselves.

By Mr. Bercovitch:

Q. With a complementary order?—A. There were two alternatives, first of all, to go ahead and order 7,000 guns if we got the money, make them in a government owned plant, because no private firm would take an order for 7,000 guns except at a prohibitive cost. Secondly, if the government policy had been such, even in a government owned plant, to get a complementary order from the British government and be their agent for that purpose. Thirdly, what transpired was to go ahead and select a contractor, selected by the war office as he was—

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By Mr. MacNeil:

Q. Then the policy enunciated by the Prime Minister was changed by something that transpired in your office?—A. I think it was dire necessity.

Mr. McGEER: What policy are you speaking of?

Mr. MACNEIL: The policy contained in the letter addressed to Mr. Plaxton.

Mr. FACTOR: I think you are exaggerating the meaning of that phrase.

Mr. MACNEIL: I am just asking questions.

Mr. FACTOR: I would interpret that as meaning that the government takes the initiative, not the—

The WITNESS: What happened in this case is this. I was told by the deputy minister that a market was in England, and Hahn had got an English order first. Although the contract with Canada was signed first, he got a promise of the English order first.

By Mr. Factor:

Q. Hahn took the initiative?—A. Yes, he got the British order first.

Q. There was no change in policy, I take it, as far as the government was concerned, when this man took the initiative first?—A. I refer to the words "dire necessity." I meant he got the promise of a British order, and financial necessity was such—

Q. Your department assisted him in every way to bring about— —A. Complementary orders.

By Mr. McGeer:

Q. I think we are overlooking the continuation of Mr. Green's question. I see we have here a letter of December 12, 1936, which came to the department, through the secretary of the High Commissioner's office, from Widdows, of the war office. That letter appears on page C-6. It is dated December 12, and the minister states on C-7:—

The implication of this communication was such as to bring the department face to face with the following situation—

1. The war department requirements were now covered by the existing arrangements made for manufacture in Great Britain.
2. If we gave an order to England for 7,000 guns a secondary source of supply would be set up in England.
3. On the other hand, if the war office would agree to place an order for 5,000 guns in Canada, we would be able to establish a source of supply in our own country.

We would then be spending the money for Bren guns on the employment of Canadian industrial workers. In addition, we would be creating employment for Canadian workers in production for Great Britain.

It was that letter of the war office of December 12, 1936, that put it up in the light of existing policy, "Are we going to get the work for Canada or are we going to see it go elsewhere?"

By Mr. MacNeil:

Q. Let me put it this way. A man presents himself—Major Hahn presents himself—to the British war office, he carries credentials as a representative of the Canadian government in order to get confidential information, and almost immediately starts to negotiate for this complimentary order with something of the weight and authority of the Canadian government behind him. Could not that be fairly criticized or construed as a deviation from the policy laid down by the Prime Minister?—A. That is a matter of opinion.

Mr. MCPHEE: My understanding was that on the 10th of November he became a representative of the government, when that cable was sent, and only with reference to the Bren gun.

Mr. GREEN: He could not get into the war office until he was made a representative.

The WITNESS: Into Enfield, Mr. Green.

Mr. MCGEER: Of course, this policy of the Prime Minister was laid down on the 12th of September, 1936.

Mr. GREEN: That is a month before.

Mr. MCGEER: Oh, no. The letter was dated December 12, 1936, three months later. I mean to say, this situation with reference to the Bren gun developed three months after the letter was written to Plaxton, which was an entirely new situation. The policy as outlined by the Prime Minister generally is set out in the quotation from Hansard which is contained in the report at page 11 where there is apparently a recapitulation of the policy for peace time production as distinct from the policy of production in war time.

By Mr. Green:

Q. Mr. Minister, you had quite a lot of difficulty with the Department of External Affairs, had you not?—A. In regard to?

Q. In regard to this whole matter.—A. Not that I recall, Mr. Green. Would you be specific?

Q. For example, if you will refer to exhibit 126 and then to exhibit 124, a letter from General LaFleche to the Under Secretary of State for External Affairs pointing out the situation, in one paragraph he says:

Major Hahn is ready and anxious to proceed to England again if by so doing he will facilitate an agreement. On the occasion of his last visit, he met Sir Thomas Inskip and Sir Harold Brown, both of whom it is understood encouraged him to undertake the task of erecting a Canadian factory.

Then there are subsequent letters, one on March 23, 1937, exhibit 126, which you read this morning and which I will not repeat. Again that is General LaFleche writing to Dr. Skelton. In the third paragraph he states:—

May I ask whether it would be possible for your department to inform the High Commissioner of Major Hahn's intended visit to London, so that he might prepare the way for Major Hahn who, I am certain, would be very pleased indeed to see Sir Thomas Inskip and Sir Harold Brown again in regard to the manufacture of the Bren machine gun in a Canadian factory whether owned or controlled by the Canadian government or by private individuals.

Apparently nothing happened. Then there is another letter, exhibit 132, written a month later to Dr. Skelton by General LaFleche. You will see that that letter was written after Major Hahn had gone to England and found out that the war office had no further word from Canada, and Hahn had cabled to General LaFleche—"Canada House claim cables not received advise." In General LaFleche's letter to Dr. Skelton he says:—

On discussing the matter with my minister this morning he requested that I explain the great importance and urgency of this problem and to request that immediate action be taken to assist Major J. E. Hahn who, evidently, intends to remain in London a few more days.

That apparently was after consultation with yourself, was it not?—A. Yes. The letter speaks for itself.

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Q. This is one of the letters which made me ask this afternoon if it was entirely fair to give Hahn the credit for solely getting the British contract, because there is one case where you yourself requested that immediate action be taken to assist Major Hahn.—A. The deputy minister had the same purpose in his heart and mind that I had, to get Bren guns as fast as we could.

Q. You were pushing Hahn.—A. Because he was trying and he was further ahead than anybody else, and I wanted to get results.

Q. Dr. Skelton replied on April 21, exhibit 133, to Colonel LaFleche, and said:—

With regard to your inquiry as to the request of the British government to look favourably upon the possibility of giving an order for the Bren machine gun to Major Hahn and his associates, I may say that I have called the Prime Minister's attention again to this matter, and to two or three other national defence questions that are outstanding. I hope to get a reply by to-morrow.

Then exhibit 134 brings the whole thing to a head, and that is a further letter from Dr. Skelton to Colonel LaFleche, which says:—

With reference to the suggestion that the High Commissioner should be asked to indicate to the government of the United Kingdom that the Canadian government would be pleased to have the government of the United Kingdom place orders for the Bren gun with the company organized by Major Hahn and his associates I was informed by the Prime Minister after council yesterday that the question had been considered, and it was not thought advisable at present to request the government of the United Kingdom to place in Canada munitions orders of this type.

Incidentally, the first part of the letter shows clearly what the Department of National Defence were after, does it not?—A. You will find that was thoroughly explained by my evidence before the royal commission.

Q. When was the difficulty overcome?—A. The reason was—I am trusting my memory now—we left that very evening for England to attend the Imperial conference.

Q. You left shortly after.—A. I think that same evening.

Q. When you got to England the situation was changed, is that the explanation?—A. We had to deal with the question of policy and we had to lay down, as I said in my evidence before, our policy with reference to munitions production generally, and we had a special sub-committee of the Imperial Conference dealing with the relations between Great Britain and the dominions in regard to the question of munitions procurement and munitions production, and it was then that I was instructed by my colleagues to lay down or to define the policy which was ours with regard to how to proceed. I am pretty certain, if my recollection is correct, that this letter was purely a question of deferring a decision until we were able to explore the situation at first-hand over there.

Q. At any rate, when you all went to London Major Hahn was there at the same time?—A. I did not know that until afterwards, but I think you are correct. I think the deputy minister saw him in May—

By Mr. MacNeil:

Q. Is it not true that the deputy minister at that period referred certain reports to you?—A. Yes, I asked for them myself because I was told by the deputy minister at that time that Hahn had made a splendid impression on Sir Harold Brown and that it was likely he would close the contract. I then myself asked for the two reports, one from the Bank of Montreal, and followed it up with a more elaborate letter written, I think it was, on May 23, 1937.

By Mr. Green:

Q. At any rate, when you got to England you were able to overcome the difficulty with External Affairs?—A. I would not call it a difficulty. I think it was a matter of not having decided on a definite policy. That is my honest conviction in regard to it.

Q. And when you got to England it was decided it was all right to go ahead?—A. The information I received through the deputy was that the probability was we could get a complementary order in England and that the war office was very pleased with the representations made by Major Hahn. I then immediately asked for these financial reports which were of an unusual recommending nature and I sent the reports to my colleague, Mr. Dunning, the Minister of Finance, while in London and told him the reason I was sending them to him, to satisfy myself more or less of his financial standing.

Q. When you got to England you did actually request the government of the United Kingdom to place Canadian munition orders of this type?—A. I do not think that is correct, except that the policy being pursued all the way through was that of getting complementary orders, but not with the government, Mr. Green.

By Mr. Bercovitch:

Q. That was for private industry only?—A. That is correct. Mr. Green, the words that we didn't get in connection with your last question were, "We would welcome and appreciate any orders that were placed by the British government with Canadian private interests, but that we would not act as agents for the British government themselves."

By Mr. Green:

Q. Really then this policy as set out in Dr. Skelton's letter of April 3, 1937, was reversed when you got to England?—A. I would rather say it was suspended until we got to England, that is correct.

Mr. McGEER: It was beginning to show less indication of being needed because of the change of idea about Canadian isolation.

By Mr. Green:

Q. You had contact with Major Hahn in England—your letter Exhibit 137, have you that?—A. Yes, I have got that.

Q. That was a report from the deputy apparently to you enclosing a copy of a letter from Major Hahn himself?—A. That is correct.

Q. Which incidentally was not strictly accurate?—A. How is that?

Q. The letter from Major Hahn was not strictly accurate.

Mr. McGEER: In what regard?

Mr. GREEN: He says:—

My company has been engaged since incorporation in the manufacture and production of steel and engineering equipment.

Actually they were not engaged in that at all.

Mr. McGEER: We went all over that.

Mr. MacINNIS: Very naughty of you to bring that up.

Mr. McGEER: And very silly, because it was brought up and exploded.

Mr. GREEN: In that connection I asked you a few minutes ago about this letter of October, 1936—

The WITNESS: Which letter, mine or the deputy minister's?

Mr. GREEN: The letter from the deputy minister to the department of External Affairs pointing out that Hahn controlled a munitions plant.

The WITNESS: Yes.

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By Mr. Green:

Q. You got a report, did you not, from one of your own officials who had actually examined the plant?—A. I do not know about the date of that report. You may have the date under your hand there.

Q. If you will look at page 22 of the Davis report?—A. Yes.

Q. You have there your own departmental inspector's summary of the situation at the Inglis factory?—A. Yes.

Q. He says:—

This factory is at present inoperative and has not been in operation since April, 1936. There is no design staff at present employed and the total number of workmen at present employed consists of three men and factory maintenance staff.

Did you see that report?—A. I could not be specific about that. I am informed by my deputy that I probably never saw it. I am informed that that was one of the many surveys that we were carrying out at that time in the various industrial plants.

Q. When did you find out that Hahn was not in an actually established business, that he did not have any business actually operating; when did you find that out?—A. I could not answer that specifically either.

Mr. BERCOVITCH: I do not know that that is a fact anyway.

The WITNESS: I did not visit the plant, Mr. Green, until May of the following year, I think it was.

By Mr. Green:

Q. You did not inspect the plant?—A. No, not until May of the following year, I think it was; May of 1938, I think it was.

Q. That is after the contract was signed?—A. Yes.

Q. You did not see the plant until after that?—A. I did not see the plant before. I had seen pictures of it that were given to me, that is all.

Q. You do not remember when you found out that the plant was not in actual operation?—A. I could not tell you.

Mr. MCPHEE: Is there not evidence that the minister did find out?

By Mr. Green:

Q. Didn't you find out at all that the Hahn plant was not actually an operating plant?—A. I do not believe I knew the history of it except that I had been told the history of the plant by the deputy, to a certain extent, that it had produced munitions to a very substantial degree during the war. I was not actually aware at the time negotiations were proceeding for the complementary contract that the plant was not operative.

Q. That is important, because you said this morning at page A-6:—

The decision (of the department) was that, having in mind the sums likely to be available for the acquisition of defence equipment, it would be unwise and impracticable to utilize these funds upon erecting and equipping factories, a program that would probably take two years, in comparison with a policy of entering into arrangements with established private industry and expending the funds appropriated to my department upon the direct acquisition of the articles themselves.

A. Yes, that brings us down again to the question of the complementary order.

Q. Would you consider the Hahn plant as you now know that it was in that state—would you consider that an established industry?—A. It is a matter of opinion again. You may have your opinion, I have mine.

Mr. BERCOVITCH: All the evidence we have had here went to show that it was an established industry and had been an established industry for many years.

Mr. GREEN: There is no need of rowing about the facts. We all know that this plant was shut down and had been shut down for some time. I am simply asking the minister whether he thinks it is fair to classify an industry in that condition as an established industry.

The WITNESS: Well, it had been established. You may probably misconstrue the significance of that word "established" as used in that manuscript. It was not a new industry, it was an established industry which had produced substantial munitions many years ago and had been established for commercial purposes.

By Mr. Green:

Q. The trouble was that it had become dis-established in the meantime?
—A. And that is a condition which applied to many other industries.

Mr. McPHEE: Then you are receding from your former position when you said it was a broken down old boiler factory?

Mr. McGEER: It was an established industry and out of operation.

Mr. BERCOVITCH: Temporarily.

By Mr. Green:

Q. There was a statement put out by your department of press relations?
—A. What was the date of that?

Q. May 5th, 1938?—A. Yes.

Q. Which I think is a little unfair because it says, the Department of National Defence announces to-day that the old established firm of Messrs. John Inglis Company Limited, of Toronto, Ontario, will manufacture Bren light machine guns in Canada under the terms of a contract which is being dealt with by the interdepartmental committee on the control of profits on government armament contracts—and so on.

Mr. BERCOVITCH: What is the portion you consider unfair?

Mr. GREEN: This business about its being an old established firm.

The WITNESS: It was.

Mr. GREEN: It was a new firm really.

The WITNESS: No, I understand it has been established for many years.

Mr. McGEER: It was an old firm under a new ownership, management.

Mr. MACINNIS: Not under new management.

Mr. McGEER: Under the same management. Major Hahn said that he was able to select the same help as was in the Inglis plant before. What he said was this—he gave his evidence very very clearly—in addition to getting the plant of the John Inglis company he was able and had investigated and found out that he could get the key men that they were available should the plant get into production.

Mr. MACINNIS: That is not the management at all.

Mr. McGEER: I think that probably in the light of the evidence that we have had before us since that of Major Hahn, that the new management is quite an improvement on the old.

Mr. BERCOVITCH: The company probably will never cease its operations.

By Mr. Green:

Q. Who puts out these press releases for your department?—A. Different people at different times, but I generally see them all before they go out. There

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was one release while I was in British Columbia which I did not see. I have forgotten the date of that. As a rule they would not go out without my seeing them.

Q. This press release is certainly hardly accurate?—A. If you disagree with it, Mr. Green, you are certainly entitled to do so. I am not quarrelling with you.

Q. Then we dealt to-day with the question of the interdepartmental committee?—A. Yes.

Q. Was it your opinion, or your idea rather, that the powers of that committee were that it was simply to review the terms of the contract?—A. Yes.

Q. That it really had nothing to do with whether the contract should be let by tender or to selected firms, or anything of that type?—A. That is correct, they were not to decide on that general policy. They were to review the terms and conditions of the contract and to determine whether or not they were fair and reasonable and in the public interest.

By Mr. Bercovitch:

Q. That applied only in cases where no tenders were called for?—A. That is correct, yes.

By Mr. Green:

Q. At that time it was your idea that it was really none of the committee's business to go into the question of whether there should be a tender called for or not?—A. I never had any idea—if tenders are practicable I see no reason why they should not be called for.

Q. No, but it was not the job of that committee to consider such questions?—A. I think the words were "consultative and advisory." I think those were the words.

Mr. BERCOVITCH: He has already told us all about that.

Mr. GREEN: We could get ahead much faster if Mr. Bercovitch would ask his own questions.

Mr. BERCOVITCH: I think we would get ahead a lot faster if you would not ask so many questions that are not very pertinent.

Mr. GREEN: You may not like them, but that is not my fault.

Mr. BERCOVITCH: As far as I am concerned, I enjoy them immensely. I would hate to give a proper description of them.

By Mr. Green:

Q. Did you follow the progress of the interdepartmental committee?—A. Only in a general way. If you read my evidence before the commission, you will find I was only apprised by my deputy minister, from time to time, in a general way. The minutes were not shown to me until afterwards. I myself, before the contract was signed, asked for two reports from the deputy minister which I received; the first was a report amounting to a certificate that the financial provisions of the contract met with their approval; and the second was a detailed analysis and survey of the negotiations and the discussions. In that detailed description you will find that there is a very fair description of the differences of opinion in the committee.

Q. Is that exhibit 244—A. Exhibit 244, yes.

Q. In the written report which you made to the cabinet?—A. You mean the recommendation to council?

Q. Yes. In that you did not mention at all that there had been this question raised as to trying to get tenders from other firms?—A. That is very rarely done.

Q. Why was that not put in your report to the cabinet?—A. That is never done in any recommendation to council. That is purely a formal document. The other document contains it. It was read to council before the other one was passed.

Mr. McGEER: Why would he read one report to council and then put it in another report?

The WITNESS: The formal recommendation to council does not deal with what we might call contentious issues at all. It is purely a formality. The other document which specifically does that was the means by which I apprised my colleagues of the general discussions in the committee and the differences of opinion. Then it was the majority of council who decided what policy they would adopt.

By Mr. Bercovitch:

Q. It is like a judgment and reasons for judgment.—A. Exactly so.

By Mr. Green:

Q. The position was really that the cabinet did decide that this objection that there should have been competitive offers was not to be listened to?—A. The committee had agreed before the recommendation to council was submitted by me. The committee had agreed.

Mr. McGEER: Mr. Fraser Elliott gave us all that. He told us that the departmental committee agreed because it meant that if they did not agree they would have made themselves liable to the accusation that they had lost the opportunity to bring labour to Canada and save \$1,300,000.

Mr. BERCOVITCH: Right.

By Mr. Green:

Q. I wish to refer to exhibit 244, the second page. This is a report from your deputy to yourself.—A. Yes.

Q. The part I wish to direct your attention to reads as follows: "Some members insisted that a cost-plus contract be submitted to tender by selected Canadian firms. It being the expressed wish of a majority of the members, this was referred to the war office officials with the request that they nearly dropped the matter."—A. That is right.

Q. And so on. Did you say that that fact was placed before the cabinet?—A. Yes. All these facts contained there were placed before them.

Q. And the cabinet decided that there should not be competitive tenders?—A. No. The cabinet accepted the recommendation of the committee that this contract be entered into.

Q. That which—A. That the contract be entered into.

Q. There are several unfortunate facts in connection with the interdepartmental committee. Another one has to do with the cable which was sent to England. I think it is exhibit 212. Will you look at that? We were told that the interdepartmental committee insisted on a cable being sent to Great Britain to ask whether it would not be possible to try to get offers from other firms; and on the same day General LaFleche sent this telegram which is set out in exhibit 212. Have you got that?—A. Yes, I have it before me.

Q. If you will read that through, you will see that it clearly sets up a different picture entirely from the other cables and almost begs Sir Harold Brown to decide as he ultimately did decide.—A. A copy of that message was sent to every member of the committee, I understand. I am only saying, that from information received, not of my own knowledge.

Mr. McPHEE: Mr. Elliott cleared that all up in the evidence he gave before this committee.

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Mr. McGEER: This is a discussion of a dispute which arose in the inter-departmental committee.

The WITNESS: I think the deputy minister could give far more direct evidence about that than I can, because I was not present there. Possibly you had better ask the deputy about those things, Mr. Green.

By Mr. Green:

Q. Did you know anything about this second cable being sent?—A. I would imagine I did, of course, at the time; but I cannot tax my memory at the present moment to be specific in my reply to that question.

Q. You would not say whether or not you did approve of that?—A. No, I would not. I presume the deputy minister showed me all cables.

Q. Then there is another point that came up. Will you look at exhibit 56? I think those are the minutes of the interdepartmental committee.—A. Yes. I have not got them here, but it is all right.

Q. I think that exhibit consists of the minutes of the interdepartmental committee?—A. Yes.

Q. And in those minutes it shows that at least some of the members were looking at the whole picture from the basis that there must be future contracts to follow this present Bren gun contract. Mr. Elliott explained to us that there was government machinery in the plant there and a long licence—ten years—whereas production of the gun would be over in, I think, five or six years.—A. Less than that.

Q. And at any rate they considered it likely that there would be future contracts?

Mr. GOLDING: No, he did not say that.

Mr. McGEER: No, no; he did not say that at all. Mr. Elliott's evidence was that the contract—you are mis-stating facts, Mr. Green. You are stating something to the minister which Mr. Elliott did not state at all. The evidence of Mr. Elliott is clear that the contract was drawn so that there would be no future obligations and no future entanglements.

Mr. BERCOVITCH: Quite.

Mr. GREEN: But Mr. Elliott said that it was considered probable there would be future contracts.

Mr. GOLDING: He did not.

Mr. McGEER: He did not say anything of that kind at all.

The WITNESS: If you will look at Mr. Elliott's evidence on page 288, he says there was no suggestion of future commitments.

Mr. GOLDING: Hear, hear; that is right too.

Mr. McGEER: And the contract was expressly so drawn.

Mr. GREEN: At page 4 of exhibit 56, page 4 of the minutes of the meeting of March 14, 1938—

The WITNESS: May I read Mr. McGeer's question? It is as follows:—

By Mr. McGeer:

Q. Do you know what Major Hahn had in his mind?—A. I know the wish he had in his mind.

Q. There was certainly no provision in this contract, no obligation for any further contracts?—A. No, we gathered against that, that is the point. This was a specific contract and eliminated all future entanglements.

Mr. GOLDING: He said that specifically.

By Mr. Green:

Q. At the bottom of page 4, the minutes of the meeting of March 14—

Mr. McPHEE: Mr. Chairman, I suggest that this method of examining the minister is out of order.

The WITNESS: I am not objecting at all.

Mr. McGEER: What is that reference you made?

Mr. GREEN: This is a note under section 16 of the contract: "A member of the committee thought—

Mr. McGEER: What are you reading from?

Mr. GREEN: It is exhibit 56; the minutes of March 14.

The CHAIRMAN: What is that reference?

Mr. GREEN: March 14, 1938.

Mr. McGEER: Exhibit 56.

Mr. BERCOVITCH: Departmental committee minutes; is that what it is? The minutes of the interdepartmental committee?

Mr. GREEN: Yes. The part I refer to reads: "A member of the committee thought that an assignment, with the consent of the party of the first part (the Crown), might have latent in it the possibility of capitalizing the future contracts that the government must give . . ."

Mr. BERCOVITCH: At any rate, Mr. Chairman, I object to the question, because no matter what was discussed by the interdepartmental committee, eventually they all consented to this contract and this contract was entered into. The discussions that were held before the interdepartmental committee is something we are not at all concerned with at this time.

The WITNESS: I think the salient fact is that as far as the department is concerned no promise of any kind whatsoever has been offered to this contracting company for any future work, any future contract or any future commitments.

Mr. GREEN: I do not say that there had been any contracts promised.

The WITNESS: I think that eliminates all discussion they had in regard to that.

Mr. BERCOVITCH: It should. I do not know whether it will.

By Mr. Green:

Q. Is it not reasonable to say that with all our government machinery there, placed in the plant at great expense, and with the Bren gun being completed in six years, and with a licence renewable for a period of ten years—
—A. Not exclusive.

Q. Is it not fair to assume that the factory will be used for other armaments when the Bren gun contract is completed?—A. It might and it might not. I think it will largely depend on the efficiency with which they carry out this contract.

By Mr. Golding:

Q. And the conditions existing at that time.—A. And under the provisions of the rigid legislation which we passed during the present session.

By Mr. Green:

Q. For example, Mr. Minister, would you say the factory is not to be used for making rifles?—A. Would I say that?

Q. Yes.—A. Oh, it would be—

Q. That it was in?—A. I cannot say; there is absolutely no commitment of any kind whatsoever.

Q. You said this morning it was equipped to make rifles.—A. Yes, naturally it is, but that does not mean it is going to be used by whoever is the government of the day for that purpose.

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Q. We can take it for granted that we will have a new government.—A. At that time we may all be socialists in Canada and want to nationalize everything.

Q. You have no other places in Canada in which to manufacture rifles?—

A. Not developed, no.

Q. And all our Ross rifle machinery has gone into the Inglis plant?—A. No; a substantial portion has gone in; think, about \$200,000 worth, roughly speaking.

Q. Our own dominion arsenal is not in that position?—A. Not yet. The factory in Quebec is manufacturing munitions and a certain type of shell, 18 pounders and 4.5's.

Q. Major Hahn told us in his evidence that this factory was equipped, or could very readily be equipped to manufacture everything from soup to nuts in the way of armaments, rifles and small arms, pistols, tanks and bombs.

Mr. GOLDING: You had better read his evidence.

By Mr. Green:

Q. And with small changes they could make artillery?—A. What Major Hahn says and what a future government may do, may be two very different things.

Q. It is not a future government we are talking about now.—A. The present government may probably be the future government anyhow.

By Mr. McGeer:

Q. I should like to draw the attention of the committee to a reference of Colonel LaFleche's on page 4 of exhibit 56. There is a reference there to a discussion in the interdepartmental committee which, if it is examined, will disclose that the interdepartmental committee was guarding against the implication that there would be future contracts.—A. Yes.

Q. Indicating that there was no intention to give them. Mr. Green has the great faculty of turning the gun the wrong way.

Mr. GREEN: That is what you think.

Mr. McGEER: He would shoot himself if he was handling a Bren gun if he adopted the same tactics that he is adopting in this committee.

Mr. MACINNIS: Why don't you let him shoot?

Mr. McGEER: I think he is making a good job of it.

Mr. GREEN: I bring it out because Hahn got in under the gate, so to speak, on this Bren gun contract, and now he is in a position where he has a head start over any other Canadian manufacturer, on the manufacture particularly of rifles and other armaments.

The WITNESS: It would depend entirely on government policy, I would say. I would say as far as the policy of private manufacture is concerned, he might have an advantage over future contractors.

Mr. GOLDING: Depending on the success—

The WITNESS: Depending entirely on the success he makes of this contract. He is undertaking a most difficult process.

By Mr. Green:

Q. While there is provision for taking the machinery out of the plant, it is extremely unlikely that that will be done?—A. There is nothing to prevent it being done if the government so decides.

Q. There is a provision in the contract that when Hahn has finished manufacturing these Bren guns he can go on and use the machinery for the rest of the term of his licence, if he sees fit. Why was that put in?—A. Where is that?

Mr. HOMUTH: That is in the contract.

Mr. McGEER: The provision is that the licence is granted for a period of ten years. If he gets other contracts, he can get authority to use that licence if it is granted.

Mr. HOMUTH: The limitation on the use of the machinery is not ten years. So far as the use of the machinery is concerned, he can make any deal with the government that the government will make with him.

Mr. McGEER: He is in this position, if an emergency arises and the British War Office offers him a contract for 25,000 Bren guns, then before he can use that machinery he must get the consent of the Canadian government. The Canadian government at all times has the right to take this machinery. Now, with reference to this proposition: if the department purchases Enfield rifles as well as guns, as was already explained by Lieutenant Jolley, it is the policy of the department of defence that in the purchase of this machinery it was considered by the department the part of wisdom to have a plant equipped with machinery that could produce Enfield rifles. That is the government policy that nobody can complain about. Now, the other proposition that is suggested here is that because he has been given this contract he is going to have the advantage of that position and experience. I think, Mr. Minister, that it is now the settled policy of the British war ministry and the United States government in establishing their peace preparations for defence, to have their facilities capable of being expanded to emergency production in time of national need. Do you object to that?

Mr. GREEN: No; I am not being cross examined.

Mr. HOMUTH: We were not objecting to that.

Mr. McGEER: We should like to know where we are going.

Mr. HOMUTH: We are going all right.

Mr. BERCOVITCH: We do not know.

Mr. GREEN: The minister has said that Major Hahn will have a head start when it comes to manufacturing rifles.

The WITNESS: Depending upon the policy of the government.

By Mr. Green:

Q. Unless the government decides it should manufacture itself?—A. And providing he shows himself to be an efficient producer and manufacturer in regard to this contract.

Q. You said something this morning about the policy being such that in an emergency the government could take over these private plants?—A. Yes.

Q. Now, is there any such provision in this Hahn contract?—A. I cannot tell you offhand; there is in some of the contracts. I understand there are certain conditions under which they can be taken over.

Q. Which section is that?

Mr. McGEER: There is no limitation in your expropriation power in a wartime emergency.

Mr. GREEN: No. Is there any provision in the contract which says in an emergency the whole thing can be taken over?

Mr. HOMUTH: No.

The WITNESS: You could take it over to-morrow. We can expropriate any property in Canada any time at all.

By Mr. Green:

Q. The only rights you have are under your ordinary expropriation rights?—A. Yes, that is right.

[Hon. I. A. Mackenzie, K.C.]

Q. There is no provision for action in that type of emergency?—A. Not to my recollection; I do not think so.

Mr. McGEER: There need be no provision for action of that type in the contract. The emergency you are referring to, I suppose, is the emergency of war. You have your War Measures Act which gives you all the powers of expropriation and authority that are necessary, and it would be ridiculous to put that type of provision in a contract of this kind.

Mr. HOMUTH: Not necessarily. Suppose they fell down on this contract?

Mr. McGEER: Then you could cancel it.

Mr. HOMUTH: You have the power of expropriation, but you would leave the machinery set up. Is that in the contract?

Mr. BERCOVITCH: You do not need it. It is part of the general law of the land. You are not going to write the law of the land into every contract you write.

Mr. McGEER: Section 18 of the contract says:—

In the event of cancellation of this contract, in whole or in part, otherwise than through unreasonable delay or default or the incurring of excessive costs on the part of the party of the second part, the party of the first part shall reimburse the party of the second part as follows.

There is a wide open power to take over the plant providing you reimburse—

Mr. HOMUTH: No, you reimburse him for the loss of the contract. Is there any ground in a capitalistic democracy for having cancellation of a contract without proper compensation?

Mr. HOMUTH: One of you said there was power of expropriation under this contract.

Mr. McGEER: There is power to cancel this contract for no cause at all, and if it is cancelled for no cause at all then there is provision for properly reimbursing the contractor for his interest in the contract.

Mr. GREEN: Where is the right to cancel for no cause at all?

Mr. McGEER: Read section 18. "In the event of cancellation of this contract, in whole or in part, otherwise than through unreasonable delay or default, or the incurring of excessive costs on the part of the party of the second part, the party of the first part shall reimburse the party of the second part . . ." If you cancel it for unreasonable delay or incurring of excessive costs, he does not get his compensation, but you can cancel it for any reason at all.

Mr. GREEN: That does not say so.

Mr. McGEER: I will leave it to any lawyer in the room. Read it again. "In the event of cancellation of this contract"—that is wide open—"in whole or in part, otherwise than through unreasonable delay or default, or the incurring of excessive costs on the part of the party of the second part, the party of the first part shall reimburse the party of the second part." There are only two limitations on that cancellation.

The WITNESS: Section 17, Mr. McGeer, also deals with the same thing.

Mr. McGEER: Yes, but this is a clear power to cancel for no cause whatever. If you cancel the contract for those causes named you do not have to pay compensation.

Mr. GREEN: Plus \$75,000.

Mr. McGEER: Well, the members of the interdepartmental committee and Hahn agreed that would be fair compensation, and considerably less than would be allowed by a board of arbitration or a court of law. We are sitting here as a tribunal of superior war contract authorities over the British war office. Of course, in the Soviet or Germany or other places they would not

have any compensation of that kind. We are still a democracy, fortunately, and have a few rights left for individuals.

By Mr. Green:

Q. Then, Mr. Minister, you mentioned this morning about obtaining the right from the Czecho-Slovakian firm to have this Bren gun manufactured in a private plant as distinct from a government plant?—A. Yes.

Q. And you gave credit for that to Major Hahn at page D2 of your statement. You state there:—

... in consequence of the progress made by Major Hahn in convincing the war office officials of his ability to carry out successfully the industrial operation in connection with the production of Bren guns, the British government succeeded in effecting a modification of its agreement with the patent owner by which the war office was enabled if it saw fit to issue a licence for the production in Canada by a private industry.

You referred to exhibit 157, a letter from Mr. Widdows of the war office to the High Commissioner for Canada. I think that conveys an entirely different impression and shows that it was your department through General LaFleche that got that arrangement put through. The letter is dated 22nd June, 1937, and reads:—

As a result of a meeting between Lieutenant-Colonel LaFleche, Deputy Minister of National Defence, Canada, and the Director of Army contracts on the 8th instant, it was decided that the Ceskoslovenska Zbrojovka A. S., Brno should be approached by the war office with a view to extending the agreement dated 24th May, 1935, between that firm and the Secretary of State for War for the manufacture of Bren guns to allow the Secretary of State to licence the Canadian government to have the gun manufactured by a third party in Canada.

A. Yes, that is quite easily explained, Mr. Green. It was the result of two situations. In the first place, that was around the time, or shortly after the time, when I was informed by my deputy minister that Hahn was making substantial progress in England, and about the time when the Canadian policy was declared at a sub-committee of the Imperial Conference at which General LaFleche was present in regard to not being the agent of the British government with reference to munitions production. So that the two factors were working in the same direction. If we were going to get a complementary order at all from Great Britain we would need to get it in a private plant and we would need this permission from the British war office to get the licence for private manufacture.

Q. Actually that was obtained by Colonel LaFleche?—A. He will speak about that himself. I have nothing to do with it.

Q. Because in your statement you said that Hahn himself— —A. Because of his success in negotiating with the war office he made a contribution towards that solution.

Q. Well, I suppose it would be fair to say at best the department and Hahn working together?—A. Partly as a result of his success in London and partly as a result of the declaration of policy it was possible to obtain a solution in order to get a complementary order.

Mr. McPHEE: I think the minister's statement on that matter was clear when he said:—

—the British government succeeded in effecting a modification of its agreement with the patent owner by which the war office was enabled if it saw fit to issue a licence for the production in Canada by a private industry.

The WITNESS: That is correct.

Mr. McLEAN: I cannot for the life of me see why there should be any question about effecting a modification of the agreement. Here is a firm in Czecho-Slovakia; they are asked to extend their business; why should they not give permission to anyone to manufacture as long as it was carried out under proper auspices? We are wasting a lot of time in the committee threshing a lot of old straw when there is not the slightest bit of grain in it.

Mr. GREEN: The point I was making was that the minister stressed in his statement that Hahn was solely responsible for getting this British contract.

Mr. McGEER: No political speeches.

Mr. GREEN: I am simply trying to point out—

Mr. McLEAN: He would be responsible primarily for getting the guns manufactured in Canada which made it necessary to get the licence transferred to a party in Canada under the auspices of the Canadian government. If he was going to make guns for Canada it would be necessary to have the licence transferred.

Mr. GREEN: I certainly started something.

Mr. McLEAN: When you mix this up with a whole lot of legal verbiage, balderdash and tweedledum you are spinning it out and splitting hairs at great length, trying to split sunbeams. There are no subbeams in this thing.

Mr. HOMUTH: There certainly are no sunbeams.

Mr. McLEAN: We are going to have all the guns, and all the evidence so far has been that the gun is a good one and being manufactured at a fair price. As far as extending this licence is concerned, to permit manufacture in Canada, in Czecho-Slovakia as well as in many other countries there are any number of good business men who would be only too glad to extend it. There would be no difficulty at all in getting that licence extended to permit production in Canada.

Mr. GRAY: I can see that I am going to have to leave this committee.

By Mr. Green:

Q. Then, Mr. Minister, you said this afternoon on the last page of the mimeographed copy supplied to us that as a result of this contract Canada will have her requirements of Bren guns for Canadian defence as determined by the general staff at present at actually less than cost. Would you explain that, that is quite a strong statement?—A. Yes.

Mr. GOLDING: That is what Mr. Elliott said.

Mr. GREEN: I am not asking you, I am asking the minister the question.

The WITNESS: Mr. Elliott's evidence at page 147, Mr. Green; Mr. Elliott said:—

By Mr. Green:

Q. Mr. Elliott said that Canada was getting the guns at less than cost. Did you reach that conclusion, Mr. Elliott, on the basis of this machinery having a total value to Canada of \$509,582?—A. Plus the savings.

Q. Pardon?—A. I reached that conclusion either on the machinery alone, that is, the \$369,000 machinery value that is given to Canada; or I take it alone on the saving of \$800,000 that will be effected by making 12,000 guns instead of 7,000. Or I will take it on the combination of the two, which ever you like. Take the three, the asset value coming into Canada versus the cost-profit going out. Canada gets more in than she pays out. She has her guns, therefore she gets her guns at less than cost.

Q. Have you figured that out yourself?—A. No, I would not be competent to figure that out, I leave matters of that kind to financial experts like Mr. Elliott.

Q. That is a very drastic statement with which we do not agree at all and I would like to know how you arrive at it?—A. Don't you agree with Mr. Elliott's evidence on that point?

Mr. HOMUTH: I think it was generally agreed, I think Mr. Elliott admitted, that in so far as the cost of the guns is concerned we do not know what they are going to cost and we will not know what they cost until after the guns are distributed. Mr. Elliott made that statement and I think that has been admitted by all members of the committee.

Mr. McLEAN: Did that estimate include all of the cost? What about the British War Office's contributions?

Mr. GREEN: I wonder if the minister could answer the question. I value the opinion of these other members of the committee which are volunteered from time to time, but I am asking the minister for an answer on that particular point.

The WITNESS: I based my observations in my address this morning on that point upon Mr. Elliott's evidence before this committee.

By Mr. Green:

Q. You have figured it out for yourself?—A. I would not presume to be an expert accountant at all.

Q. Because under the contract the Hahn outfit was to have \$450,000 profit, and it takes a lot of figuring to do away with all that amount of cost and get the guns at less than cost.

Mr. McGEER: That is another statement made by Mr. Green that is entirely out of line, as Mr. Homuth's are. We examined Mr. Elliott at very great length and with all due deference to the statement made by Mr. Homuth and the statement made by Mr. Green I think Mr. Elliott made it abundantly clear that there was no possible way that he estimated that the cost could go beyond what they would cost being brought into Canada; that we would have the benefit of the returns from the British government, and our savings as a result of the co-operation, and the result would be that we were getting these guns at less than actual cost.

Mr. HOMUTH: Oh no, now, Mr. Chairman, Mr. McGeer may criticize the statements that Mr. Green and I make, but nevertheless it was definitely stated in Mr. Elliott's evidence that we will not know the cost of the guns to the Canadian government until such time as the last gun is delivered and if we deem it wise we have removed the machinery from the Inglis plant to our own arsenal.

Mr. McGEER: We have gone now to the point where we can get reasonable estimates as to what the cost is going to be, and we know the benefit we are getting through the payments being made by the British government and that they are going to put us in the clear.

Mr. HOMUTH: We are not sure about that yet.

Mr. McGEER: The basis of the evidence that is available at the moment is that. If we are to be guided by some other evidence than the best that is available then it brings us into the realm of the picture gallery which we have been getting away from.

Mr. HOMUTH: I think Mr. McGeer has a lot of pipe dreams too.

Mr. McGEER: And I am quite sure I will never recover from them if I have to sit in this committee much longer.

By Mr. Green:

Q. Mr. Minister, your only basis for that statement, which you will admit is rather startling, is what you think Mr. Elliott said to us?—A. Exactly; what I quoted to you from his evidence.

Q. Of course, Mr. Elliott said many many things.—A. I have great admiration for his ability.

Mr. GOLDING: Hear, hear.

Mr. McGEER: And for his integrity.

Mr. HOMUTH: No one is questioning his integrity. You are always interjecting things like that. You are always twisting things around so that one appears to be questioning somebody's honesty or something like that.

Mr. McGEER: You see, when you get a good man, a man of ability, who makes a statement, but who breaks down under cross-examination he is either an irresponsible witness or a reckless witness.

Mr. HOMUTH: Who says that?

Mr. McGEER: I do, but we have never said that Mr. Elliott was either irresponsible or reckless.

Mr. HOMUTH: You were just suggesting that he was.

Mr. McGEER: No, no, I am just talking about what the rule is when we are dealing with witnesses. No one would suggest that Mr. Elliott was an irresponsible witness.

Mr. HOMUTH: He certainly was not.

Mr. McGEER: Therefore, if you break down his evidence on cross-examination you are putting him in the position where it must necessarily follow that he is a reckless witness.

Mr. GREEN: I suggest that they argue that outside. I simply want to come back to the question I raised, that your statement was based on what Mr. Elliott had said.

The WITNESS: My statement was based entirely on what Mr. Elliott said on that page.

Mr. GREEN: Then you made another rather startling statement: "The guns produced for our requirements will be produced at a saving of more than \$1,250,000 over and above what we would have been called upon to expend for them had we produced the guns without the cooperation of the British War Office."

Mr. McPHEE: Mr. Elliott says that.

Mr. GREEN: Where did you get that; was that from Mr. Elliott?

The WITNESS: That was his evidence too.

Mr. McPHEE: At page 211 Mr. Elliott said that; Mr. Elliott puts it at \$1,300,000.

By Mr. Green:

Q. Have you gone into those figures yourself?—A. No. I left that to the experts who are more competent to understand them than I am. I do not pretend to be an expert on figures.

Mr. GOLDING: They haven't much confidence in Mr. Elliott.

Mr. GREEN: Mr. Elliott based \$800,000 of that figure on the fact that in Canada we had an order for 12,000 instead of manufacturing our own 7,000; that is correct, is it not?

The WITNESS: Yes.

By Mr. Green:

Q. And that same saving, as you call it, would have been possible if any other firm had contracted for the 12,000 guns, or if the government had manufactured them?—A. Of course, if the government manufactured them according to our declaration of policy there would have been no complementary order. What Mr. Elliott actually said will be found at page 211:—

That asset, if we closed the deal as a matter between John Inglis company and Canada, was worth in cash about \$509,000 or one-third of the capital machinery and the tools, dies and jigs. I think that is \$509,000. It was also worth the saving per unit in the production of guns, which was estimated by those expert in it at \$800,000. In other words, there was a total—intangible at the moment, it is true, but nevertheless real if we signed the contract—of \$1,300,000. We could find no other company, due to the situation, that would offer us such a financial advantage. So, therefore, I say I could not answer your question specifically by saying “yes, we were perfectly satisfied.” I had to give that explanation. I say we were, under all the circumstances, satisfied that we should go into the contract.

Mr. GREEN: That \$800,000 would have been saved in the same way if the contract had been given to any other company.

Mr. MCPHEE: He says not, he says just the opposite.

Mr. GREEN: Mr. Chairman, I am asking the minister the question, not Mr. McPhee.

The WITNESS: What was your question?

By Mr. Green:

Q. The \$800,000 would have been saved in just the same way if the contract had been with another firm?—A. Under the same conditions, certainly; with the British co-operation, certainly.

Q. And also the supposed saving of \$500,000 does not take into account the fact that this machinery depreciates at the rate of 10 per cent, I think, a year. So that it is a very questionable figure?

Mr. BERCOVITCH: Mr. Fraser Elliott worked it out.

The WITNESS: It was worked out by Mr. Elliott very carefully.

By Mr. Green:

Q. Your statement is based entirely on Mr. Elliott's estimate?—A. Yes.

Mr. McGEER: At page 49 of the report of the commissioner, Mr. Justice Davis, he states:—

Much emphasis was laid throughout the enquiry by the department officials and counsel upon what was said to be a saving of something like \$1,300,000 to the Canadian government due to the participation of the war office. Mr. Fraser Elliott in his evidence estimated that Canada made a capital saving of \$551,000, being one-third of the total amount which it is estimated will be paid for the machinery. All the machinery used in the manufacture is at the expiration of the contract to become the property of the Canadian government, although the war office had agreed to bear one-third of its cost. It was at first suggested that the war office should contribute five-twelfths of this cost but this proportion was reduced finally to one-third. Then there is an estimated saving of about \$800,000 in production costs due to the fact that Canada's 7,000 guns are being made as part of a total production of 12,000 instead of being made under a single order.

That is the finding of the commissioner.

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Mr. HOMUTH: The same saving would have been made regardless of who had the Bren gun contract, regardless of conditions.

The WITNESS: That is in the findings later on.

Mr. McGEER: How can you tell what savings you would make on a contract that never existed? The evidence clearly before this committee is that you had a chance to enter into this contract, and that if you did not enter into this contract the British war office would have produced their own guns in a secondary plant at home.

Mr. GOLDING: Exactly.

Mr. McGEER: Time and time again that has been brought out before this committee. You fellows are not so dumb that you have not read this evidence.

Mr. GREEN: We are not as dumb as we look.

Mr. McGEER: I think you are dumber than you look.

Mr. BERCOVITCH: No, they are not dumb; they are green.

The CHAIRMAN: Order.

Mr. McPHEE: Mr. Elliott states: "If we did not deal with that company we could find no commensurate asset in any other company in Canada."

Mr. McGEER: What would you have done if you had been on that departmental committee yourself?

Mr. HOMUTH: If I had been Hahn, I would have done as Hahn did.

Mr. McGEER: I agree; only I think you would have done as Homuth would have done.

Mr. HOMUTH: You give me a lot of credit.

Mr. McGEER: There is nothing wrong with your business acumen.

Mr. BERCOVITCH: Why should there be?

Mr. McGEER: There is not.

By Mr. Green:

Q. Mr. Minister, was there any objection from the British government to co-operating with Canada in a dominion arsenal for the manufacture of this gun?—A. No, not as far as I know. No, the objection came from Canada.

Q. If Canada had been willing, they would have co-operated?—A. If the policy of the government had been different, you might have got some contracts for a government-owned arsenal, providing you were prepared to expend your capital production costs.

By Mr. McGeer:

Q. Would it be wrong to ask your opinion as to whether or not you agreed to the government's policy, bowing to the sentiment of isolation and neutrality that was dominant in Canada in 1936 and 1937?—A. I am afraid that is a leading question. I would rather not answer it.

By Mr. Green:

Q. You think it would have been possible to have the British government on the same basis in government manufacture?—A. I have not any doubt at all about that.

By Mr. Bercovitch:

Q. Was it discussed at all with the government?—A. Yes, the general policy was discussed in the sub-committee. It is a private committee of the Imperial Conference.

Mr. McGEER: What was the date of the election at St. Henri?

By Mr. Isnor:

Q. Taking into consideration present costs of production in a government arsenal, is it reasonable to suppose that they could produce as cheaply as a private concern?—A. Our experience is that it costs much more to produce in an arsenal publicly-owned.

Q. It is safe to say this company is producing more cheaply than a public-owned arsenal?—A. Yes.

By Mr. Green:

Q. Then, Mr. Minister, you dealt this afternoon with the question of tenders?—A. Yes.

Q. You were dealing, were you not, with open tenders?—A. Not necessarily.

Q. Would the same objection apply to calling in four or five selected firms?—A. Yes. In this case, yes; because we were not the arbitrators of that. We must have got consent of the British authorities in regard to releasing the secret processes so that these firms—the selected list—would be able to compete amongst themselves; and unless they had gone over there as Hahn did and had obtained the information, with the consent of the war office, of the Enfield processes, they could not tender.

Q. Of course, you let Major Hahn take away the Bren gun right at the start. He walked off with it.—A. I am sure if anyone else had asked for it, they would have got it quite as readily. They would as far as I was concerned.

Mr. McGEER: That was not true. The Bren gun was sent up to the military district in Toronto and held there for inspection by Major Hahn with two engineers.

By Mr. McGeer:

Q. But is there not a thing known as the Official Secrets Act in England?—A. Yes.

Q. And is it not a fact that the reason why these men going over there seeking information had to become representatives of the government is so that they could comply with that Act?—A. I think that is possibly quite correct.

Mr. HOMUTH: We even admit that.

Mr. McGEER: Of course you will admit it. But the point is that when you come to throw these things around, the British war office does not do business the way we do it in Canada. This committee has made the government of Canada a screaming farce, even in Japan.

Mr. BERCOVITCH: Not the whole committee; just some members.

Mr. GREEN: Only the government.

Mr. HOMUTH: It might be well to mention the members of the committee who have done that, unless they all have. Mr. Bercovitch says that not all have done it.

Mr. McGEER: In this type of investigation. We might as well ask the minister why did he not go to the Minister of War in England? We have suggested that the Minister of National Defence become first the legal counsel of his department, next that he supervise the investigation into the credit and financial power, the operating power of the contractor—that he become the technical authority who is going to supervise all those details. Nothing could be more absurd than to expect the minister to perform those duties.

Mr. ISNOR: Financial expert.

Mr. McGEER: No. He must be an expert in every single department. I suppose that he should be the man who would go into the details of shoe manufacture, every bit of equipment, and that kind of thing, if the same pro-

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gram was suggested for the minister to follow throughout the whole department as has been suggested by the attack in this committee. The position would become absurd and ridiculous. We have never heard once in this whole inquiry of the fact that the Minister of War ever knew there was such a thing, as far as England was concerned, as a contract for the production of the Bren gun in Canada. We have heard of the department of contracts; we have heard of the department of supply; we have heard of the treasury board. What would happen if the Minister of War is called upon to perform the duties that have been suggested and that this examination suggests the Minister of National Defence should perform? It is palpably absurd and ridiculous.

By Mr. Green:

Q. I should like to come back to my point. Did you ask the British government whether or not there would be any objection to having in a few selected firms?—A. I think you will find that in one of the telegrams. I think there is a telegram that went from the interdepartmental committee.

Q. That was not until long after it had been decided to give the contract to Major Hahn?—A. The actual details of the contract were being discussed by the committee.

Q. That was in the Spring of 1938, whereas Hahn had practically got the job in 1937.—A. Whether it was discussed with them before that, I cannot say. The deputy minister may have some information on that point.

Q. You do not know?—A. No, I do not know.

Mr. McGEER: You do know that Major Loggie—

Mr. GREEN: Surely Mr. McGeer cannot put words in the minister's mouth.

Mr. McGEER: Pardon me, Mr. Green.

By Mr. McGeer:

Q. Do you know that Major Loggie reported that British policy in cases of this kind was to select a contractor?—A. Yes. But I think the date of that was 1938. I am not sure of the date.

Q. The date was right when the contract was being considered.—A. That is what I say.

Q. And the decision was given as to whether or not Hahn should get the contract.—A. That was the point I mentioned.

Mr. HOMUTH: That was in 1938.

Mr. McGEER: But there was no decision to give Hahn the contract.

Mr. GREEN: Hahn had the contract.

Mr. McGEER: Suppose the war office had come back to the interdepartmental committee and said, "Yes, we will agree to tenders." Then the only way that Hahn could have got that contract would have been by calling for tenders; and Hahn might not have got it. Hahn had no call on the Department of National Defence until the ministry of war sent back word, "We are following our policy of selecting a contractor and if you people do not agree to deal with Hahn, then we are going ahead with our secondary production in England."

Mr. HOMUTH: If Mr. McGeer continues to make speeches like that, we will have another five weeks of evidence.

Mr. McGEER: It is all in evidence; every word of it.

Mr. HOMUTH: There is a lot of evidence contradictory to that.

Mr. McGEER: There is not a word of contradiction to it. It cannot be contradicted.

Mr. GREEN: Mr. Chairman, on that point I should like to refer the minister to exhibit 153.

By Mr. Green:

Q. Mr. Chairman, on that point I should like to refer the minister to exhibit 153, which is a letter dated June 8, 1937, to Sir Harold Brown from General LaFleche.—A. Yes.

Q. Written when you were all in England.—A. Yes.

Q. In 1937. And that directly contradicts Mr. McGeer's statement. It says:—

Should an assurance be given that at least 5,000 guns would be ordered by, say, the government of the United Kingdom, the Department of National Defence would immediately recommend entering the final stage of our negotiations with Major Hahn.

I should appreciate knowing, at your early convenience, whether the war office is prepared to place an order. Definite information would greatly assist my department and much time could be saved if Major Hahn knew what to expect.

You yourself said, Mr. Minister, that in 1936 Hahn was your only hope, that if you were to get a British contract it had to be through Hahn—A. In 1936?

Q. December, 1936, when Hahn made his report after his investigation. That is the whole story all the way through. Now Mr. McGeer comes in and says Hahn had nothing to do with the Canadian government and that they had nothing to do with Hahn until 1938.

Mr. McGEER: What I said, and what I repeat again, is that all that letter says is that we are prepared to enter into the final stage of the negotiation. Now, negotiations are the preliminary prerequisites to the settlement and termination of the terms of a contract. Until the terms of it are settled, no contract can be entered into. Hahn was faced with the situation as late as February, 1938, when he had the assurance of the contract from the British War Office and the interdepartmental committee was saying, we believe that tenders should be called for. The deputy minister of national defence, knowing the policy of the British government, said, if you insist on that you are going to lose the co-operation of the British government. The interdepartmental committee said we are not satisfied with the deputy minister's statement so they decided to cable to London. They not only cabled to London but they secured information from the liaison officer Loggie, who was there representing the Canadian government. From the British War Office came a cable stating, if you insist on tenders it will be fatal to our co-operation with Canada.

Mr. HOMUTH: We know that—

Mr. McGEER: You just keep quiet a minute. Then comes a statement from Loggie, saying I have discussed this matter with Brown of the war ministry and I am informed by him that their policy in the letting of a contract of this kind is not to call for selective tenders but to select a contractor and to define the terms of the contract with him. Now, right at that point there was nothing binding on the part of the department of defence to give Hahn a contract at all, and this trying to construe the statement that we are prepared to enter into the final stages of negotiations into meaning that that in itself is a binding obligation on the Department of National Defence, is going far beyond the limitations of reasonable interpretation of the terms of the letter and certainly way beyond anything that can be considered a legal interpretation.

By Mr. Green:

Q. Now, we will just trace that down a little bit. Do you agree with Mr. McGeer's statement?—A. That is a large order. I did not follow it altogether. You ask me a specific question in regard to that. I think I have it pretty well in my memory in regard to this.

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Q. This letter which I read to you a few minutes ago shows you were prepared then to close with Hahn if the British would give an order for 5,000 guns.—A. There is no doubt that if anyone was in a position to give us the possibility of a complementary order, at any time we were prepared, once we had received the consent to the necessary appropriation, to co-operate for that complementary order.

Q. You were prepared to close with Hahn at any time?—A. Yes, but we kept pressing the war office for a complementary contract, so that I think on November 5, 1937—

Mr. McGEER: November 9th.

The WITNESS: November 5th, I think, is the first letter mentioned where they were considering the matter, and then on November 9th, 1937, they said they would definitely sign a complementary contract for 5,000 guns with the John Inglis Co. That is my recollection of the evidence.

By Mr. Green:

Q. Between the time of your being in England and the time that the war office said in November, 1937, that they would enter into a contract, there were different letters and cables sent?—A. That was made very clear in my evidence before the commission. It is all on the record. We kept a sustained endeavour to get results in a complementary way, no question about that.

Q. You sent several cables yourself during that summer?—A. I have no recollection particularly. Probably you have the records before you there; it is quite likely I did.

Q. Then in addition to that Major Hahn was kept informed by the deputy minister of the position from time to time until November, was he not?—A. He can speak for himself.

Q. Finally there is a letter which I think you read to-day, exhibit 176?—A. Yes.

Dated October 21, 1937. Would you refer to that.—A. Yes.

Q. The paragraph on the bottom of the first page states:—

A private citizen of Canada, Major J. E. Hahn, D.S.O., M.C., has evinced great interest in the possibility of producing the Bren gun in Canada. With knowledge of the department he has made more than one visit to England where he has been able to discuss the matter with high war office officials who let him understand that the government of the United Kingdom might be very pleased to see an auxiliary source of supply established in Canada. Indeed, he discovered possibilities of receiving an order for say 5,000 guns from the government of the United Kingdom. It is believed that Major Hahn could readily proceed with production in Canada.

You were still at that time considering Hahn as the only person as a contractor, were you not?—A. If you read the former part of this letter you will find the following:—

From this it was apparent that Bren guns could be obtained in Canada by any of the following methods: (a) by direct purchase from war office; (b) by manufacture under licence from the Secretary of State for war in Canada in a Canadian government factory; (c) by manufacture in Canada under an agreement direct with the patentee to meet local requirements not covered by the British agreement.

There could not be any finality at that stage.

Q. Hahn was the one man that you had?—A. He was the only manufacturer over there at that time.

Q. Then there is a further letter, dated November 3, 1937, exhibit 179, which is marked as having been seen by you?—A. Very likely that is correct; it must be.

Q. That was before England agreed to a contract. It is a letter to Major Hahn from the deputy minister of defence which says:—

With reference to your previous intimation that you and associates would be pleased to enter into a contract for the manufacture in Canada of Bren machine guns, I enclose herewith, without prejudice, a draft agreement which might be adapted for use in your case.

He is actually sending him a draft agreement before it is settled.

You will see that the said draft agreement does not deal with the manufacture of weapons, but in it are covered a number of principles which would have to be dealt with if the department were to enter into a contract with you and your associates. It may well serve as a model for your guidance.

You will understand that the department does not make the proposal, but if the enclosed suggestions were to come from you as a proposal to the department, I have every reason to believe that it would be possible to come to a very early decision in the matter.

Should anything come of this, the agreement would, of course, be on a cost plus basis. These proposals, as you probably know, are submitted to the indepartmental committee on the control of profits.

There was your deputy actually sending a draft agreement to Major Hahn before the British reached their decision.—A. No doubt he will probably explain that. Probably they were negotiating from time to time in regard to draft proposals, both with the war office and with the Canadian government.

By Mr. Bercovitch:

Q. And they were just what the word indicates—"proposals"; they were not contracts?—A. Yes.

Mr. McGEER: Are you aware that we have been investigating this Bren gun contract from September 7, 1938, and it is now the 22nd day of May, 1939? Have you any idea as to how long these investigations should be continued consistent with the defence of the realm in these times?

Mr. MACINNIS: Mr. Chairman, I do not think that is a proper interjection at this time. It is not relevant to what Mr. Green was saying.

Mr. McGEER: We have listened to these things from week to week.

Mr. MACINNIS: That is all right; there are other ways of finishing it without interrupting.

Mr. McGEER: I agree with Mr. MacInnis that there should be no interruptions, but we have been in this committee day after day, and there has not been a bit of new evidence adduced outside of the evidence with reference to the actual estimates since the Davis inquiry. Every bit of this evidence was fully considered and threshed out before the Davis commission.

Mr. MACINNIS: The quickest way to finish is to let Mr. Green go on.

By Mr. Green:

Q. Exhibit 82 reads:—

British government has approved negotiations as to second source of supply of Bren guns in Canada. Present proposed expenditure involved to British government is not regarded favourably but war office is now ready to negotiate for purchase of 5,000 Bren gun manufacture by John Inglis subject to some substantial reduction in cost. Will you arrange for a representative to proceed early to this country for negotiation or do you prefer we discuss with Canadian High Commissioner.

[Hon. I. A. Mackenzie, K.C.]

Actually all through that picture it was Hahn and Hahn alone with whom the Canadian government contemplated contracting.—A. He was the only one there.

Q. I have one more question to ask. What is your attitude towards this expense account which Major Hahn has filed under the provision in the contract on page 3 entitling the company to a sum not exceeding twenty thousand dollars in respect of actual cost of preliminary investigation, planning and engineering services carried out by the party of the second part prior to the execution of this agreement as evidenced by vouchers or other proof in support thereof satisfactory to the party of the first part? We have had in evidence Major Hahn's claim which includes amounts running to \$9,255 for his personal time before the date of the contract and \$6,722 for his personal expenses and \$7,256 for lawyers' fees.

Mr. BERCOVITCH: Was not that withdrawn?

By Mr. Green:

Q. What is your attitude?—A. Mr. Green, the situation was this: These accounts were submitted to the department and withdrawn at their own request and never re-submitted.

Q. But Major Hahn explained to us that they were withdrawn to be submitted in a revised form?—A. They have not come back to us since that time.

Q. Is it your opinion that Major Hahn is entitled, or the Inglis company, to payments of that type, that is, for Hahn's time, for his expenses and for his legal fees?

Mr. McPHEE: This matter was discussed by the interdepartmental committee and you went into it with Mr. Elliott and Colonel Orde.

Mr. GREEN: I know they do not like these questions.

The CHAIRMAN: Go ahead, Mr. Green.

The WITNESS: I would say, Mr. Green, it is impossible to make a definite declaration of policy with reference to that. Any accounts re-submitted to the department will be scrutinized most carefully to see that they are submitted definitely and rigidly within the terms and provisions of that contract. As you know, in Great Britain, promotional expenses are permitted sometimes. But you can rest assured that so far as we are concerned they will be most carefully scrutinized.

By Mr. Green:

Q. Is it the intention that such charges for Major Hahn's time will be allowed?—A. We have come to no decision whatever. You can rest assured a decision will be rendered entirely in the public interests.

Q. Or that his lawyers' fees should be paid? Is that the intention?—A. The intention of the government, to use a parliamentary reply, will be disclosed by its actions.

By Mr. McGeer:

Q. In any event, Mr. Minister, these accounts will come before the proper officials of the department, they will check them, they will be proved, and they will be dealt with by you when the recommendation eventually comes before you?—A. That is quite correct.

Mr. GREEN: Checked, approved, and paid.

The WITNESS: Not necessarily, Mr. Green.

Mr. McGEER: They have been put in once, checked and not paid.

Mr. ISNOR: Just before the committee adjourns, I would like to make a correction on page 607.

Mr. McGEER: That is one thing I dislike, because what is suggested in that answer, Mr. Chairman, is this: Mr. MacInnis says the reason why they were not paid was that this committee was sitting—

Mr. MacINNIS: Yes.

Mr. McGEER: —and the inference of that is that there is a conspiracy on between the officials of the Department of National Defence and Major Hahn to do something that the committee would not do, that they would not do in the light of this committee's investigation. I do not think that is at all fair to the officers of the department or to Major Hahn.

The CHAIRMAN: May I take this opportunity of expressing my appreciation for the patience and diligence displayed by members of the committee in the conduct of the examination of this witness during the last few hours—

Mr. McGEER: Who is this coming from?

The CHAIRMAN: From me. The minister is now clear to keep his appointment in Vancouver. What is the desire of the committee with respect to adjournment? Shall we sit to-morrow morning at 11.15?

Mr. GREEN: I think we had better.

Mr. McGEER: I think the committee had better get on with its work. This matter has been dragging and dragging and dragging, and I think in fairness to all the interests concerned that we should get this thing cleaned up. I would move that we sit to-morrow morning at 11.15.

The WITNESS: May I express my thanks to members of the committee for their kindness to me in sitting three times to-day, and also for the unfailing courtesy which they have extended to me throughout the hearings.

The CHAIRMAN: We hope you have a good trip.

The WITNESS: Thank you.

The CHAIRMAN: We will adjourn until 11.15 o'clock to-morrow morning.

The committee adjourned at 10.50 o'clock p.m. to meet again to-morrow, May 23, 1939, at 11.15 o'clock a.m.

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